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Administrator of National Banks

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Comptroller — Robert L. Clarke

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The OCC is funded through assessments on the assets of national banks.

The Comptroller

Robert Logan Clarke became the 26th Comptroller of the Currency on December 10, 1985.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation and of the Resolution Trust Corporation, and as a member of the Federal Financial Institutions Examination Council.

An attorney, Mr. Clarke was formerly with the law firm of Bracewell & Patterson in Houston, Texas. He joined the firm in 1968 and founded its Banking Section in 1972.

Mr. Clarke received a B.A. degree from Rice University in 1963 and an LL.B. degree from Harvard University Law School in 1966. He served as a Captain in the United States Army from 1966 to 1968.

The Quarterly Journal is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letter series, statistical data, and other information of interest to the administration of national banks. Suggestions, comments or questions may be sent to Tommie Boyd, Communications Division, Comptroller of the Currency, [illegible] Subscriptions [illegible] Comptroller of the [illegible]

Quarterly Journal

Office of the Comptroller of the Currency

Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

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Operations of National Banks

Preliminary second quarter 1990 results for 3,960 reporting national banks indicate that profits dropped in the first six months of 1990 compared to a year earlier. Aggregate net income totaled $5.9 billion for the first half of 1990, including $2.6 billion in the three months ending June 30, 1990. This represented a decrease in the levels reported a year earlier, when national banks registered record profits of $8.3 billion in the first six months of 1989, including $4.0 billion in the second quarter.

The decline in aggregate earnings in 1990 can be traced to a deterioration in loan quality, which contributed to relatively high provisions for loan losses. Through June of 1990, loan loss provisions totaled $8.2 billion, compared to the $5.1 billion set aside during the first six months of 1989.

Problem Real Estate Contributed to Drop in Second Quarter Income

Increased allocations to loan loss reserves reflected, in large part, a deterioration in the quality of real estate loans. Noncurrent real estate loans (nonaccrual real estate loans plus real estate loans that are 90 or more days past due) were $19 billion as of June 30, 1990, up $2 billion in the quarter and $6 billion from a year earlier. Other real estate owned (OREO), which is comprised largely of real estate acquired through foreclosure, amounted to $11 billion, up $2 billion in the quarter and $3 billion from a year earlier.

The most severe asset quality problems experienced by national banks were in the Northeast and the Southwest. In the Northeast, noncurrent real estate loans amounted to 6.34 percent of real estate loans outstanding; including OREO, the ratio was 8.43 percent. In the Southwest, the ratio of noncurrent real estate loans to real estate loans outstanding was 5.95 percent; including OREO, which was especially high in the Southwest, the ratio was 12.25 percent. For all national banks, noncurrent real estate loans were 4.02 percent of real estate loans outstanding, and noncurrent real estate loans plus OREO amounted to 6.09 percent of real estate loans plus OREO.

Despite increases in problem real estate, overall real estate lending continued to grow. Compared to a year earlier, real estate loans increased $45 billion, or 10.33 percent, whereas total loans increased just $29 billion, or 2.36 percent. Real estate's share of national bank loan portfolios rose from 35.58 percent to 38.35 percent in those 12 months.

In the three months ending June 30, real estate loans increased $7 billion, even as total loans fell by $18 billion, led by a drop of $14 billion in consumer loans and $6 billion in commercial and industrial loans. The biggest increase in real estate loans during those three months occurred at the multinational banks, where outstandings increased from $139 billion to $146 billion. Real estate loans dropped, however, at national banks in the Northeastern and Southeastern districts, by $1 billion and $2 billion respectively.

Stephen M. Cross
Industry and Financial Analysis Division

Aggregate statistics for national banks
(Data as of June 30, 1990)

	6/30/86	6/30/87	6/30/88	6/30/89	6/30/90	6/30/90 Over $10B	$1B-$10B	$300M-$1B	Under $300M
[illegible]									
Number of Reporting Banks	4 890	4 722	4 457	4 267	3 960	35	175	291	3 459
Number of Banks with Losses	1 004	989	729	565	516	9	23	25	459
Number of Failed Banks	24	37	25	50	68	0	0	3	65
Balance Sheet ($ Billions)									
Total Assets	1 647	1 712	1,797	1 894	1 973	963	607	152	252
Total Loans	1 031	1 083	1 158	1 229	1 258	630	401	93	133
Real Estate Loans	281	332	383	437	482	228	146	42	66
Commercial & Industrial Loans	363	363	375	384	385	221	114	21	29
Loans to Individuals	201	203	220	236	229	78	100	23	28
Total Securities	230	259	271	284	310	105	103	30	71
Total Deposits	1 254	1 309	1 357	1 430	1 512	704	458	127	222
Loan Loss Reserve	17	31	32	28	30	17	9	2	2
Noncurrent Loans	31	42	41	39	44	27	11	2	3
Noncurrent Real Estate Loans	8	10	13	13	19	11	6	1	1
Other Real Estate Owned	4	6	7	8	11	5	3	1	2
Primary Capital	120	132	139	147	148	68	45	12	23
Equity Capital	99	97	103	114	119	50	38	11	21
Income Statement ($ Millions)									
Second Quarter									
Net Income	1 922	−2 066	2,456	4 010	2 593	952	757	390	493
Net Interest Income	13 711	14 421	15,335	16 704	16 336	7,048	5,250	1,522	2,487
Noninterest Income	5 498	5,839	6 732	7,970	8 344	4,406	2,812	506	621
Noninterest Expense	13,252	14,265	15,236	16 404	16 874	8 140	5,354	1,288	2,094
Securities Gains	492	204	69	110	40	28	11	1	0
Loan Loss Provision	3,706	14,132	3,112	2 753	4,077	1,913	1,604	237	323
Net Loan Loss	2,532	2,221	3,804	3,210	5,403	3,681	1,272	203	246
Year-To-Date									
Net Income	4 220	4,908	4,655	8 310	5 863	2,264	1,931	657	1,010
Net Interest Income	27,647	28,619	30 389	33 175	13 730	11,402	3,028	5,015	
Noninterest Income	10 796	11,722	13,585	15,309	16 910	8,904	5,831	934	1,241
Noninterest Expense	26 424	28,269	30 416	32,134	33 793	15,840	11,091	2,592	4,271
Securities Gains	1,034	649	281	126	112	66	39	4	3
Loan Loss Provision	7,026	16 845	6,508	5 133	8,215	3,617	3,568	459	571
Net Loan Loss	4,590	4 438	6,579	5 699	9,764	6,051	2,896	389	427

Industry and Financial Analysis

Aggregate statistics for national banks by region
(Data as of June 30, 1990)

	Northeastern	*Southeastern*	*Central*	*Midwestern*	*Southwestern*	*Western*	*Multinational**
Industry Structure							
Number of Banks	444	516	822	650	938	549	41
Number of Banks with Losses	64	76	39	25	196	111	5
Number of Failed Banks	2	1	2	0	55	8	0
Balance Sheet ($ Billions)							
Total Assets	394	265	283	106	145	175	606
Total Loans	253	169	169	61	72	122	411
Real Estate Loans	99	78	59	21	28	51	146
Commercial & Industrial Loans	80	40	57	19	22	35	133
Loans to Individuals	39	37	36	12	13	23	67
Total Securities	69	52	59	25	38	22	45
Total Deposits	304	206	220	85	120	139	438
Loan Loss Reserve	7	3	3	1	2	3	11
Noncurrent Loans	11	3	3	1	3	3	19
Noncurrent Real Estate Loans	6	2	1	0	2	1	6
Other Real Estate Owned	2	1	1	0	2	1	3
Primary Capital	30	20	22	9	11	14	43
Equity Capital	22	18	20	7	9	12	31
Income Statement ($ Millions)							
Second Quarter							
Net Income	–128	523	568	211	220	440	758
Net Interest Income	3,090	2,367	2,480	927	1,173	1,921	4,377
Noninterest Income	1,466	863	890	376	491	845	3,413
Noninterest Expense	3,233	2,091	2,221	882	1,226	1,728	5,495
Securities Gains	10	9	–8	2	4	5	18
Loan Loss Provision	1,500	456	352	136	191	364	1,078
Net Loan Loss	1,248	303	289	133	287	276	2,867
Year-To-Date							
Net Income	130	941	1,143	460	320	861	2,007
Net Interest Income	6,315	4,766	4,931	1,844	2,320	3,778	9,221
Noninterest Income	2,955	1,702	1,748	759	974	1,551	7,221
Noninterest Expense	6,453	4,257	4,371	1,740	2,485	3,406	11,082
Securities Gains	36	18	–10	3	5	10	50
Loan Loss Provision	2,745	1,012	762	247	423	623	2,403
Net Loan Loss	2,819	669	532	231	553	482	4,478

*National banks affiliated with seven multinational bank holding companies
Industry and Financial Analysis

Aggregate performance statistics for national banks
(Data as of June 30, 1990)

	6/30/86	6/30/87	6/30/88	6/30/89	6/30/90	6/30/90			
						Over $10B	$1B-$10B	$300M-$1B	Under $300M
Profitability (%)									
Return on Equity	9.41	−10.14	9.40	15.31	10.19	9.44	10.55	12.87	9.94
Return on Assets	0.57	−0.59	0.54	0.91	0.62	0.49	0.66	0.90	0.83
Interest Income to Assets	9.28	8.57	8.99	10.25	10.14	10.67	9.59	9.83	9.64
Interest Expense to Assets	5.74	5.12	5.50	6.61	6.66	7.72	5.71	5.67	5.50
Net Interest Income to Assets	3.54	3.45	3.49	3.64	3.48	2.96	3.88	4.16	4.14
Loss Provision to Assets	0.90	2.03	0.75	0.56	0.86	0.78	1.21	0.63	0.47
Noninterest Income to Assets	1.38	1.41	1.56	1.67	1.78	1.92	1.98	1.28	1.02
Noninterest Expense to Assets	3.38	3.41	3.50	3.51	3.55	3.41	3.77	3.56	3.52
Net Operating Income to Assets	0.42	−0.68	0.48	0.86	0.59	0.47	0.63	0.89	0.82
Asset Quality (%)									
Noncurrent Loans to Loans	2.96	3.90	3.52	3.18	3.46	4.35	2.83	2.10	2.10
Noncurrent RE Loans to RE Loans	2.67	3.01	3.28	3.02	4.01	4.81	4.19	2.49	1.82
Noncurrent RE Loans + OREO to RE Loans + OREO	4.20	4.64	5.10	4.67	6.09	6.85	6.32	4.36	4.01
Loss Reserve to Loans	1.63	2.82	2.78	2.32	2.41	2.72	2.25	1.87	1.76
Net Loan Loss to Loans	0.94	0.85	1.18	0.96	1.60	1.99	1.48	0.85	0.65
Portfolio Composition (%)									
Net Loans & Leases to Assets	61.03	60.93	62.15	62.85	62.47	63.27	64.62	62.15	54.46
RE Loans to Loans	27.25	30.69	33.04	35.58	38.35	36.24	36.38	44.81	49.64
Securities to Assets	13.99	15.11	15.08	15.00	15.70	10.91	16.98	20.02	28.31
Wholesale Funds to Deposits	30.39	30.31	29.62	30.12	28.53	43.26	17.44	14.51	12.80
Capital (%)									
Total Capital to Assets	7.62	8.05	8.05	8.05	7.89	7.57	7.80	8.14	9.19
Primary Capital to Assets	7.19	7.58	7.63	7.63	7.40	6.93	7.33	7.91	9.08
Equity Capital to Assets	6.00	5.67	5.71	6.01	6.02	5.15	6.22	7.06	8.29
12 Month Growth Rates (%)									
Assets	7.88	3.97	4.97	5.39	4.19	10.95	−3.70	10.51	−2.64
Loans	7.74	4.96	7.00	6.07	2.36	10.99	−5.65	3.14	−8.40
Real Estate Loans	15.36	18.21	15.18	14.21	10.33	25.34	−1.08	9.18	−4.24
Noncurrent Loans	3.76	38.06	−3.46	−4.28	11.54	10.24	25.33	12.27	−16.35
Noncurrent RE Loans + OREO	−35.39	162.23	26.78	4.29	44.53	71.81	44.20	24.22	−20.38

Industry and Financial Analysis

Aggregate performance statistics for national banks by region

(Data as of June 30, 1990)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	[illegible]	[illegible]
Profitability (%)							
Return on Equity	1 19	11 10	12 11	13 04	[illegible]	[illegible]	[illegible]
Return on Assets	0 07	0 75	0 84	0 89	[illegible]	[illegible]	[illegible]
Interest Income to Assets	9 43	9 57	9 55	9 23	8 70	[illegible]	[illegible]
Interest Expense to Assets	6 11	5 77	5 94	5 65	5 45	[illegible]	[illegible]
Net Interest Income to Assets	3 32	3 79	3 61	3 58	3 24	[illegible]	[illegible]
Loss Provision to Assets	1 44	0 81	0 56	0 48	0 59	0 74	[illegible]
Noninterest Income to Assets	1 55	1 35	1 28	1 47	1 36	1 85	[illegible]
Noninterest Expense to Assets	3 39	3 39	3 20	3 38	3 47	4 07	3 78
Net Operating Income to Assets	0 04	0 73	0 85	0 88	0 41	1 00	0 66
Asset Quality (%)							
Noncurrent Loans to Loans	4 33	2 03	1 95	1 74	4 24	2 36	[illegible]
Noncurrent RE Loans to RE Loans	6 34	2 76	1 75	1 99	5 95	2 64	4 40
Noncurrent RE Loans + OREO to RE Loans + OREO	8 43	3 97	2 85	3 44	12 25	4 81	6 47
Loss Reserve to Loans	2 91	1 64	1 61	1 95	3 27	2 14	2 74
Net Loan Loss to Loans	2 27	0 83	0 64	0 76	1 50	0 82	2 26
Portfolio Composition (%)							
Net Loans & Leases to Assets	62 24	63 09	60 65	58 60	48 14	68 95	65 43
RE Loans to Loans	39 14	45 96	35 10	33 69	39 45	41 69	35 57
Securities to Assets	17 60	19 43	20 89	23 86	26 22	12 53	7 40
Wholesale Funds to Deposits	24 85	16 13	20 97	14 32	19 65	15 22	50 19
Capital (%)							
Total Capital to Assets	7 91	7 69	7 85	8 35	7 95	8 63	7 67
Primary Capital to Assets	7 38	7 50	7 74	8 03	7 78	7 87	6 89
Equity Capital to Assets	5 60	6 77	6 97	6 87	6 46	6 76	5 07
12 Month Growth Rates (%)							
Assets	1 66	4 76	5 07	2 42	-20 07	7 64	12 75
Loans	-1 92	2 89	2 84	1 45	-24 13	7 53	10 73
Real Estate Loans	3 83	9 83	12 65	8 47	-19 18	15 21	22 88
Noncurrent Loans	77 06	59 63	0 15	-9 80	-48 58	6 89	9 67
Noncurrent RE Loans + OREO	238 50	69 64	39 59	30 73	-45 95	3 13	82 92

*National banks affiliated with seven multinational bank holding companies

Industry and Financial Analysis

Regional Economic Disparities in the Districts of the Office of the Comptroller of the Currency

The economic expansion in the United States through the first half of 1990 has lasted for 89 months, making it the second longest in duration in U.S. economic history. In contrast to earlier expansions, however, improvements in aggregate economic statistics have masked a sharp divergence in regional fortunes. This article highlights the economic disparities among the districts of the Office of the Comptroller of the Currency (OCC). The differences may be summarized as follows:

- From 1930 to 1980, disparities in regional income moderated as the income gap between low- and high-income regions narrowed substantially.
- Beginning in 1980, the trends suddenly reversed; by the end of the decade, the gap between low- and high-income regions widened again, resembling mid-1960s levels.
- Regional variations were almost exclusively due to the divergent performance of the Southwestern and Northeastern district economies. Income differences among the other four districts have continued to narrow.

Extended Nationwide Expansion

At 89 months and counting, the economic expansion that continued through the first half of 1990 is the longest peace-time expansion ever experienced in the United States, and despite its durability, the expansion has also shown notable overall strength. While average gross national product (GNP) growth has not been as robust as it was during the 1961-69 expansion (which benefitted from a war-time buildup in its last four years), this expansion compares favorably with those of the 1970s. In addition, the total increase in employment during this expansion was greater (21 million versus 19.6 million) and the total decline in the unemployment rate was larger (5.4 percent versus 3.4 percent) than in all three of the earlier expansions, excluding the 1961-69 expansion.

Four Recent Economic Expansions

	1961-69	1970-73	1975-80	1982-5/30/90
Months Duration	106	36	58	89
Annual growth rate in real GNP	4.3	4.0	3.6	3.9
Annual growth rate in employment	3.0	2.5	3.0	2.7
Overall increase in employment	19.6	7.7	13.9	21.0
Overall drop in unemployment	3.4	1.1	2.3	5.4
Overall rise in per capita income	$2,546	$1,199	$1,414	$2,309

*Growth rates in real GNP and in employment are annual percentages. Overall increases in employment are per millions of workers

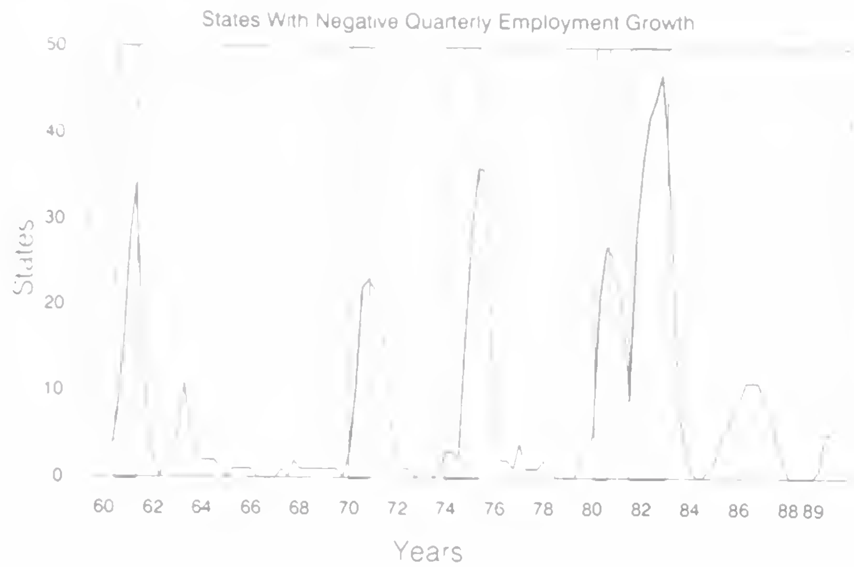
Inflation has also remained relatively stable in the most recent expansion. Excluding volatile food and energy components, core inflation stabilized at around 4 percent by the end of the last recession and has fluctuated within a narrow 4 to 5 percent range for the past seven years — a record of inflation stability unmatched since the early 1960s.

Nationwide Expansion Has Masked Regional Disparities

Despite relatively strong growth, not all areas of the country have fared equally well during the recent expansion. In the 1980s, economic events, or shocks, often had disparate effects on different regions in the country, causing the disengagement of some regional economies from national patterns. Some regions were mired in what could be termed "recessions" for periods during the last decade when the national economy appeared to be expanding.

Not all 50 states experience positive job growth throughout an expansion, but the job growth pattern during the most recent expansion has been far from typical. In the past, employment would fall in one, two, or three states during a period of national economic growth. Yet as many as 11 states were contracting in a single quarter in 1987 and employment in 10 of those

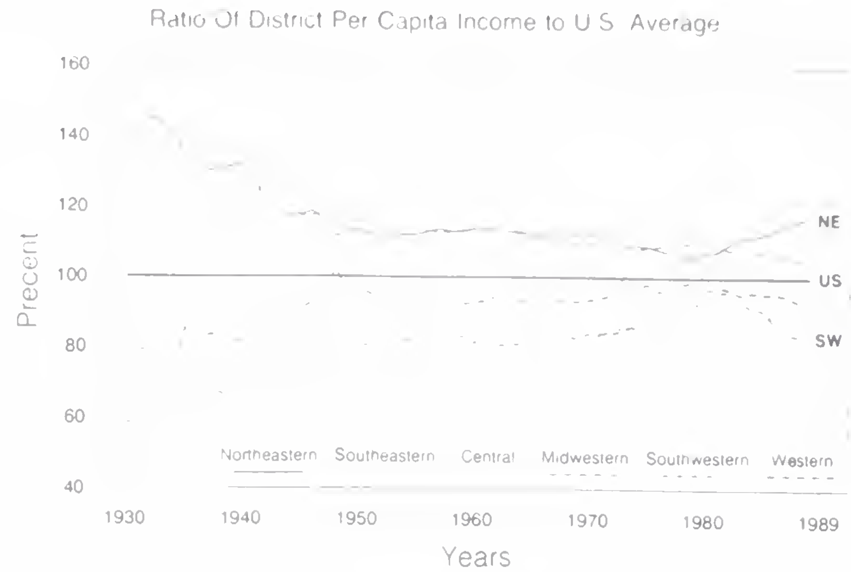
states that declined for at least three consecutive quarters is a number far greater than in any of the other three expansions since 1960. A closer look at those 11 states brings into relief two distinct regional or sectoral patterns: five of the 11 states (Alaska, Colorado, Louisiana, Oklahoma, and Texas) are oil or energy states while another three (Idaho, Iowa, and North Dakota) are agricultural states.



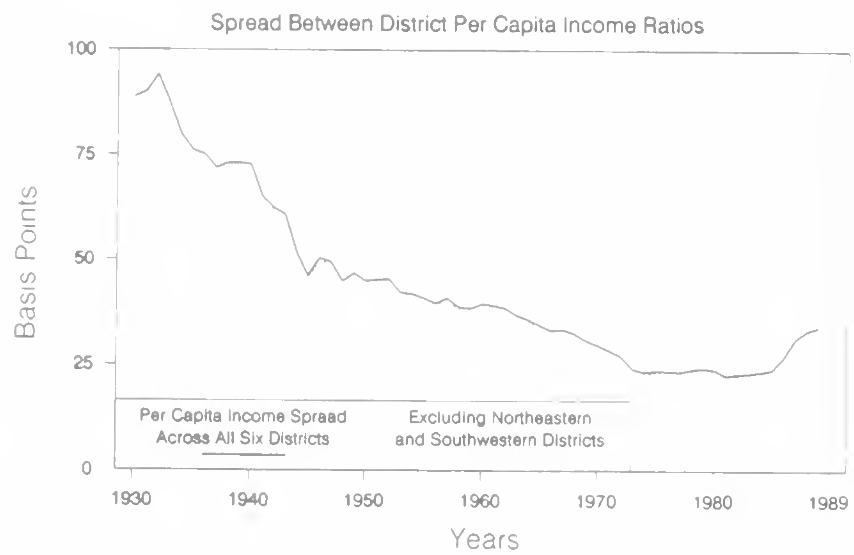
The number of states with shrinking employment has also increased in recent months, although the decline has shifted from the Southwest and Midwest to the Northeast. Four of the five states with falling employment at the end of 1989 (Connecticut, Massachusetts, New Hampshire, and Rhode Island) lie within the OCC's Northeastern District. Recent reports suggest as many as 16 states may have entered into recession in the first half of 1990.

Regional differences in per capita income have also widened substantially during the 1980s. From the 1930s to the early 1980s, differences in per capita income across OCC's six districts were almost continuously narrowing, and thus average per capita income in each district was gradually converging towards the national average. Beginning about 1982, however, the long-term trend towards regional convergence underwent a sudden and sharp reversal and the per capita income spread between the highest- and lowest-income districts widened substantially until it began to resemble mid-1960s disparities. The deviation between the highest- and lowest-income districts was unusual because it occurred during a period of steady economic expansion; regional income differences historically widen only during recessions and narrow significantly during expansionary periods.

Contrary economic trends in OCC's Northeastern and Southwestern districts explain most, if not all, of the widening of regional income differences during the most recent expansion; the long term convergence of regional incomes in the rest of the districts continued



unabated. Some of the widening of regional per capita income in the Northeastern and Southwestern districts can be explained by varying demographic trends and shifts in industry mix in the two districts; however, a study by the Federal Reserve Bank of Boston found that those were not determining factors. Rather, the answer seemed to lie in the disparate effects across different parts of the country of some national economic events, or shocks.



In the Southwestern District, the story is already well known: the external shock was the wild volatility of oil prices. The district's income ratio mirrors the trend in oil prices from their ascension in 1973, peak in 1982, and collapse in 1985. The impact of the decline in oil prices was magnified by the conspicuous role played by the energy industry in the economies of Louisiana, Oklahoma, and especially Texas. In Texas, for example, the Federal Reserve Bank of Dallas has calculated that 55 percent of new construction jobs, 40 percent of new finance, insurance, and real estate jobs, and 45 percent of all new jobs could be attributed either directly or indirectly to growth in the oil and gas industry during the oil boom. Thus problems in the energy industry inevitably spread to other sectors of the economy, further exacerbating the income decline.

In contrast, the Northeastern District owed its sharp improvement in relative income during the 1980s to a wider range of factors, although the decline in oil prices also played an important, and favorable, role for this oil-consuming region. Several other factors contributed to the Northeastern "miracle": rapid growth in the defense, high-tech/computers, and financial services industries, as well as rising values for financial assets and real estate.

Higher defense spending in the early 1980s was undoubtedly an important source of economic strength. The Northeastern District consistently garnered a large share of total U.S. defense spending over the past several decades; in the 1980s its share of an expanding defense pie even rose slightly to about 28 percent.

The once explosive growth of both the high-tech/computer and finance and insurance sectors also helped boost the Northeastern District's growth above the rest of the U.S. From 1980 to 1986, employment in both the computer and finance and insurance sectors grew, on average, at twice the rate of aggregate U.S. employment. The dramatic appreciation of both financial instruments and real estate during the past decade also disproportionately benefitted the Northeast because of its unusually high reliance on the property, dividend, and interest components of total personal income.

There are some indications that the income divergence between the Northeast and Southwest may have approached a peak. The Southwestern District economy has probably bottomed out while all four of the sources of strength in the Northeast during the 1980s have cooled, leading to a sharp slowdown.

Conclusion

Despite the record length of the expansion — already in its eighth year — and a notable lack of volatility in the major economic indicators, these years were characterized by a growing disparity in regional income. The disruptions in regional growth patterns over the 1980s can be traced almost exclusively to the divergent economic performance of the Northeastern and Southwestern districts; income differences between the other four OCC districts continued to narrow. The disparate responses, especially in the Northeast and Southwest, to the same national economic shocks during the 1980s have highlighted the increased importance to policymakers of looking behind national economic indicators to assess the individual vulnerabilities of regional economies.

Carlos E. Pelay
Industry and Financial Analysis Division

New Real Estate Appraisal Requirements for National Banks

On August 21, 1990, the Office of the Comptroller of the Currency (OCC) sent a final regulation to the *Federal Register* containing new real estate appraisal requirements applicable to selected real estate transactions made by national banks. The regulation implements title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). Title XI gew out of hearings on the impact of fraudulent and faulty appraisals on real estate lending. These hearings raised concerns on the part of the House Government Operations Committee's Commerce, Consumer and Monetary Affairs Subcommittee Chairman Doug Barnard (Democrat-Georgia) and others that real estate lending problems were partially due to overstated collateral values based on inaccurate appraisals.

The regulation illustrates OCC's commitment to maintaining the safety and soundness of national banks engaging in real estate lending and reaffirms the need for national banks to take care in real estate loan review analysis. It is also designed to assure that real estate appraisals are performed according to uniform standards by individuals whose competency has been demonstrated. The regulation identifies which transactions require an appraiser, sets forth minimum standards for performing appraisals, and distinguishes those appraisals requiring the services of a state certified appraiser from those which may be performed by a state licensed appraiser. Other features of the regulation concern appraiser independence, professional association membership, competency, and enforcement.

Title XI of FIRREA outlines the basic requirements for appraisals used in federally related transactions*. They must be in writing; produced according to uniform standards; and performed by appraisers whose competency has been demonstrated and whose professional conduct will be subject to effective supervision. FIRREA also assigned the OCC and other federal financial agencies new responsibilities relating to real estate appraisals. The agencies must:

- develop standards for the performance of appraisals conducted in connection with federally related transactions; at a minimum, the appraisals must conform to appraisal standards issued by the Appraisal Standards Board of the Appraisal Foundation.
- prescribe which categories of federally related transactions should be appraised by state certified appraisers and which by state licensed appraisers.

The regulation's key features are summarized below

- The OCC set a $50,000 *de minimis* level below which the appraisal regulation will not apply. This does not mean that appraisals, or other property evaluations, are not required for real estate transactions of less than $50,000 involving national banks. Instead, it means that any exempted transaction must have an evaluation of real property collateral that is consistent with the OCC's 1987 Guidelines for Real Estate Appraisal Policies and Review Procedures. Extensions of credit that fall outside of the appraisal regulation will continue to be monitored through OCC supervisory activities.

- The regulation permits a bank to use a licensed appraiser for any transaction below $250,000 as well as any noncomplex residential property appraised below $1,000,000. All other transactions require the services of a certified appraiser.

- The regulation gives banks the option of using either in-house staff or fee appraisers to perform an appraisal. If an appraisal is prepared by a staff appraiser, the appraiser must be independent of the lending, investment, and collection operations of the bank. The appraiser's activities involving the transaction must relate solely to preparation of the appraisal and the staff appraiser may have no direct or indirect interest, financial or otherwise, in the property being appraised. If the only qualified persons available to perform an appraisal are involved in the lending, investment, or collection operations of the bank, the bank must take steps to ensure that the appraiser exercises independent judgment

*FIRREA defines federally related transactions as any transaction which: 1) a federal financial institutions regulatory agency, or the Resolution Trust Corporation (RTC) engages in, contracts for, or regulates; *and*, 2) requires the services of an appraiser.

- [illegible] fee appraiser [illegible] must be engaged directly by the bank [illegible] and must have no direct or indirect interest in the property being appraised or in the transaction.

A copy of the regulation has been sent to all national banks and national bank examiners. The OCC's *Guidelines for Real Estate Appraisal Policies and Review Procedures*, adopted jointly with the bank supervision agencies of the Federal Reserve Board and the Federal Deposit Insurance Corporation in 1987, as well as OCC's regulations on other real estate owned (12 CFR 7.3025) remain in effect. The integration of existing guidance on real estate appraisals and this new regulation should provide a reasonable degree of assurance that real estate appraisals used in connection with federally related transactions will be reliable.

Tommy R. Tucker
Office of the Chief National Bank Examiner

Risk Management Assessment: A Supervisory Response to a Changing Fiduciary Industry

During the past several years, national bank fiduciary assets have increased dramatically, reaching a high of $2.7 trillion as of December 1, 1988, and exceeding the $1.85 trillion in commercial banking assets or 1988. In addition, the products, services, and delivery systems relating to the fiduciary business have become more complex, increasing potential bank exposure. Unfortunately, growth in fiduciary assets among national banks has been marked by inconsistencies in the quality of oversight of fiduciary activities by bank boards and executive management. As part of its ongoing assessment of fiduciary supervision, the Office of the Comptroller of the Currency (OCC) recently began to assess whether national banks are sensitive to the risks involved in the fiduciary business and to determine whether these risks are being properly managed.

Fiduciary Risk Management Assessment

A risk management assessment (RMA) approach to fiduciary supervision is the result of the investigation. The keystone of RMA is *sound management*. Promoting and monitoring compliance are also fundamental components. RMA has three primary goals:

- Determine the nature and quality of national bank fiduciary risk management practices. This involves determining what banks are doing to identify and control fiduciary risks and assessing how well they are controlling such risks.
- Encourage institutions to develop systematic approaches to fiduciary risk management.
- Target specific fiduciary products for detailed testing to measure the effectiveness of national bank risk management.

The RMA approach began on a pilot basis throughout the country earlier this year, concentrating initially on banks with large fiduciary departments. It enhances, without drastically changing, OCC fiduciary supervision by providing more formal structure and guidance to procedures already used by many examiners.

After initial testing, OCC fiduciary examiners reviewed results of the pilot program at an agency workshop held in Washington, D.C. in June 1990. They concluded that RMA should become an ongoing method of fiduciary supervision because:

- RMA helps get to the heart of both fiduciary and bank-wide deficiencies in supervision and controls. Fiduciary findings are frequently a harbinger of broader bank problems in other areas such as audit supervision, personnel administration, and new product development.
- Since RMA involves a detailed review of selected fiduciary account and asset types, it helps target specific issues underlying broader concerns about bank fiduciary supervision and control.
- Bank management has been receptive to the RMA approach. They have described this "top down" management assessment, combined with other supervisory procedures, as superior to a more narrow method of detecting noncompliance.

Features of the Fiduciary RMA Approach

Examiners using RMA to evaluate bank fiduciary controls employ the same guidelines used to assess many other areas of a bank. These guidelines may be found in the management and board processes section of the *Comptroller's Handbook for National Bank Examiners*. Examiners also use a fiduciary RMA request letter which is tailored to the particular institution. This letter is designed to gather information on overall fiduciary management systems and controls rather than to collect specific details about the bank's fiduciary operations. For example, rather than request a schedule of the bank's fiduciary insurance coverage, the bank would be asked to explain how it determines the amount of insurance coverage needed, who evaluates the coverage, how often, and what factors are considered in that evaluation.

Examiners also use an RMA questionnaire to query executive management about its fiduciary risk management processes. In addition to helping to evaluate an individual institution's fiduciary management, the information from the questionnaire can be used to correlate fiduciary risk information for a group of related institutions or for institutions in the same peer group.

Finally, information from the questionnaire helps examiners set supervisory strategies for the institutions involved.

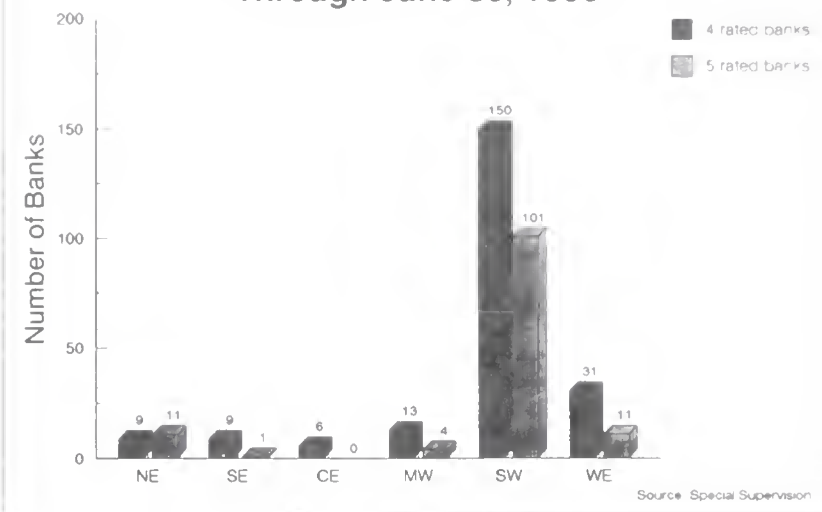
For additional information about the OCC's fiduciary risk management approach, consult section 502 of the *Comptroller's Handbook for National Bank Examiners*. *The Director's Book: The Role of a National Bank Director* is also useful. Copies may be obtained from the Communications Division of the OCC in Washington, D.C.

Charles C. Burgess
Nashville, Tennessee Duty Station
Arthur W. Steele
Columbus, Ohio Duty Station

Special Supervision and Enforcement Activities

This section includes information on national bank failures and summaries of recent enforcement cases. Data on national bank failures is provided by OCC's Special Supervision Division in Washington and by the six district offices. Information on enforcement actions comes from the Enforcement and Compliance Division of the Law Department and district counsel, who are principally responsible for representing the office in presenting and litigating administrative actions. Because the OCC often initiates enforcement actions against banks requiring special supervision, the two divisions work together closely.

Problem Banks By District Through June 30, 1990

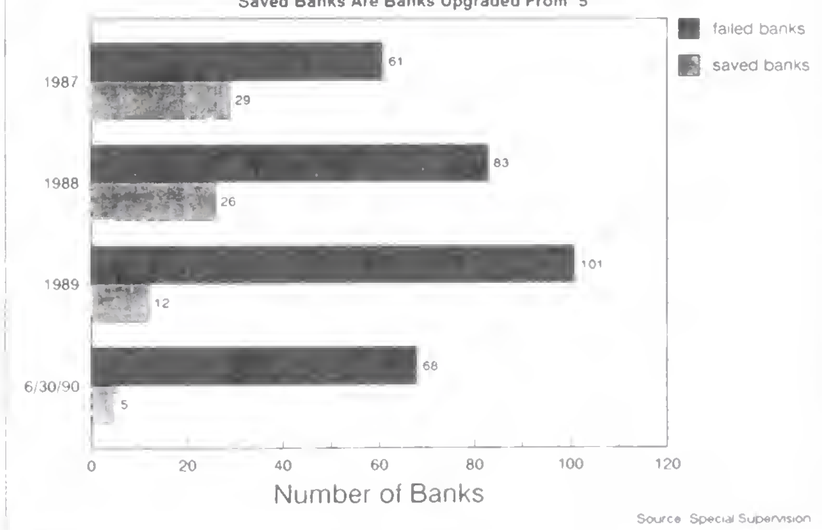


Problem National Banks

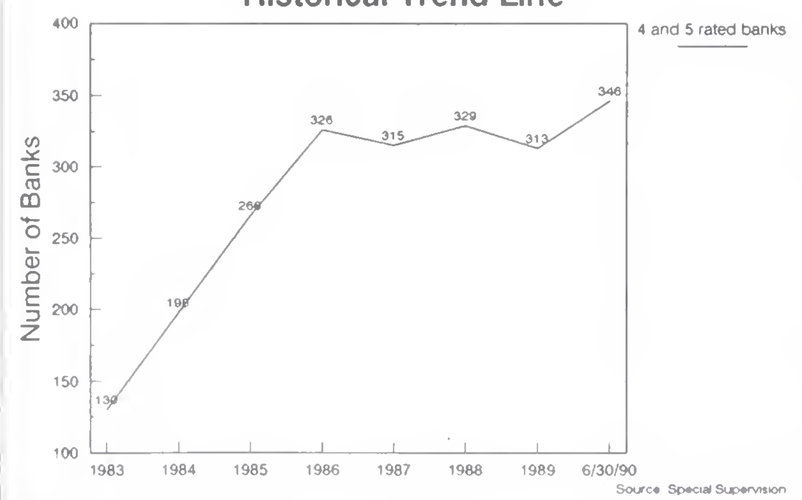
Although the number of problem national banks had been relatively constant since 1986, they have reached a new high in the first half of 1990. Most of them are located in the economically depressed southwestern states — the OCC's Southwestern District has approximately 73 percent of the nation's problem national banks. The number of problem banks in the rest of the country increased only slightly in the first half of 1990, from 93 to 95; this increase largely reflected weaker economic conditions in the country, especially in the OCC's Northeastern District.

Failed / Saved Bank Comparison

Saved Banks Are Banks Upgraded From "5"



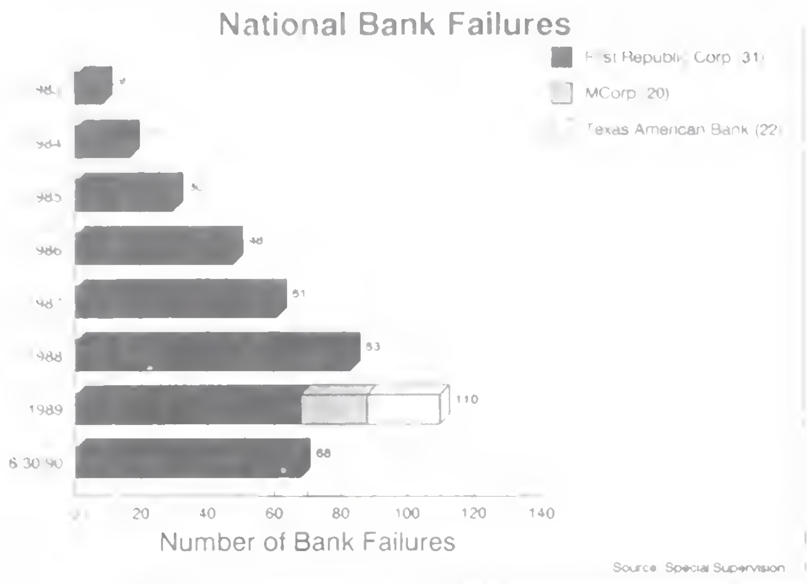
Problem National Bank Historical Trend Line

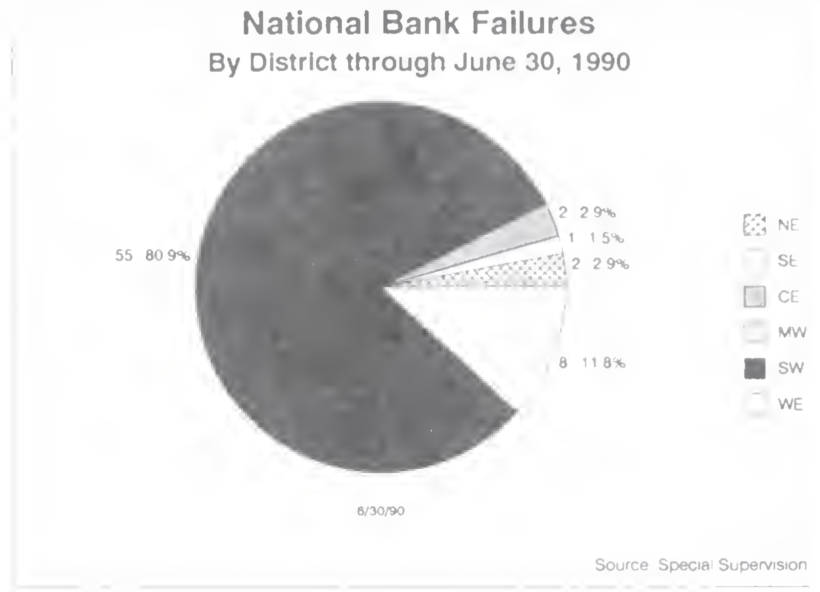


Although the outlook for 5 rated national banks (a rating of 5 represents the most critical rating a bank can receive on a scale of 1 to 5) is generally not good, not all 5 rated national banks fail. Some are rejuvenated by capital injections, some receive financial assistance from the Federal Deposit Insurance Corporation (FDIC) under section 13(c) of the Federal Deposit Insurance Act, some regain health by administrative remedies, and some are restored to health by actions of bank management and boards of directors.

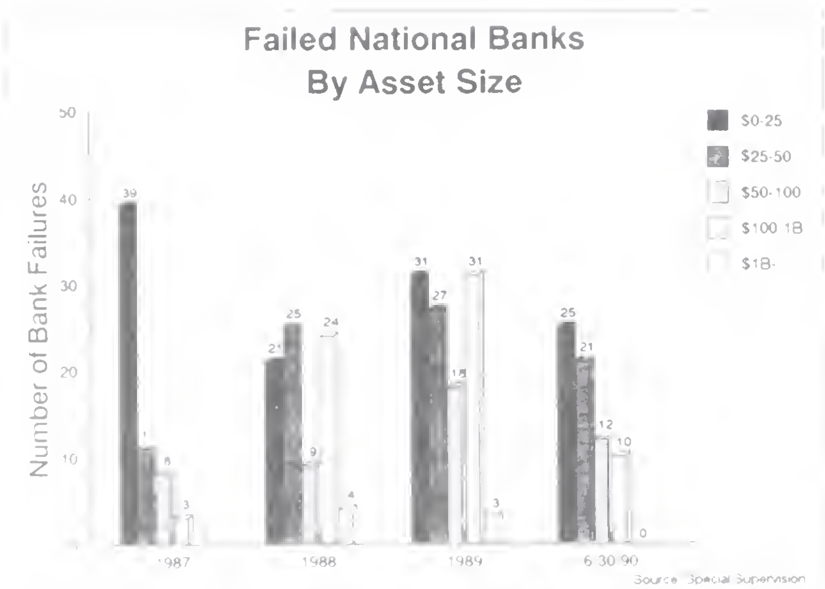
National Bank Failures

The 206 bank failures in 1989 represent a post-Depression high. Failures in 1989 include 68 community banks, 20 MCorp subsidiaries, and 22 Texas American Bank subsidiaries. Failures have continued at a rapid pace during the first half of 1990 and already have surpassed year-end totals for each of the past six years (excluding regional subsidiary bank failures in 1988 and 1989).





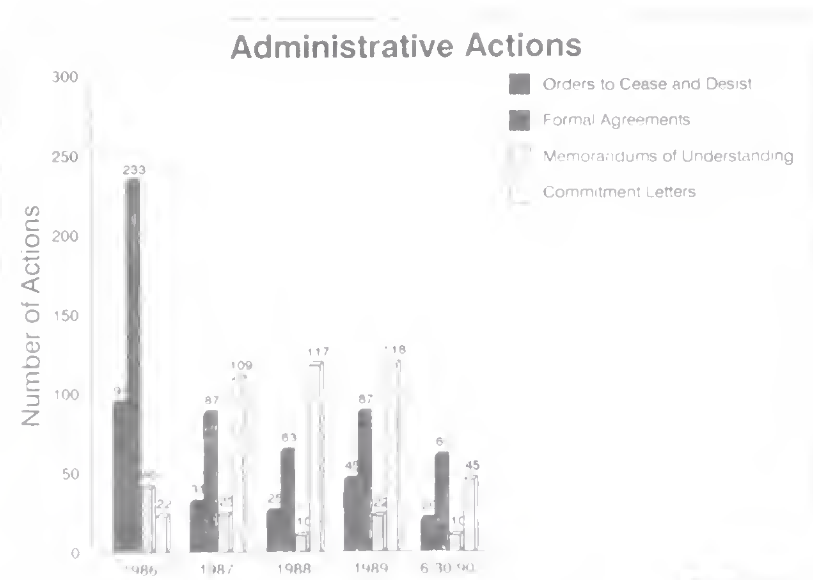
In 1988 and 1989, national bank failures were fairly evenly distributed among all asset size categories of banks. This trend continued during the first half of 1990. As in 1989, the greatest numbers of bank failures occurred in smaller banks with less than $25 million in total assets.

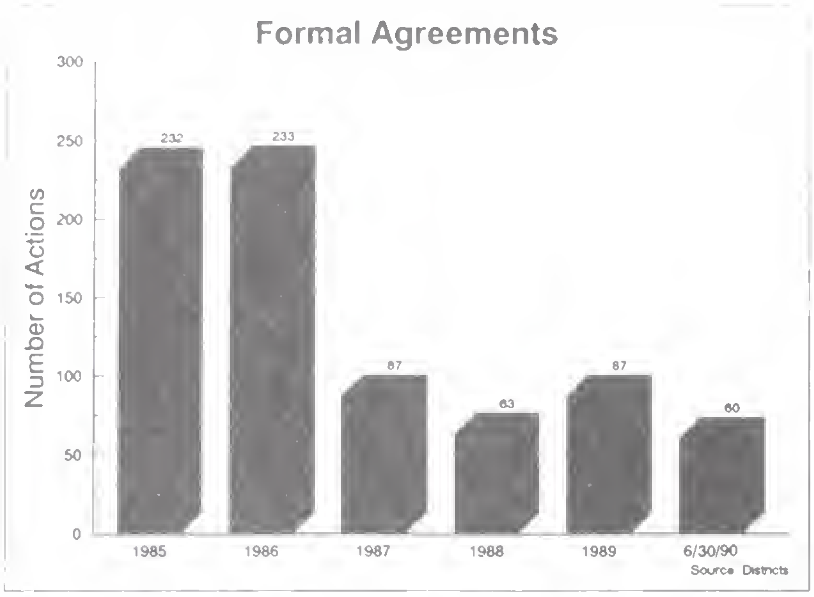


Almost all of the national bank failures were located in the Southwestern District, which is not surprising since most problem banks are also located in that area. Texas had 55 national bank failures during the first half of 1990, representing almost 81 percent of all failures in that period.

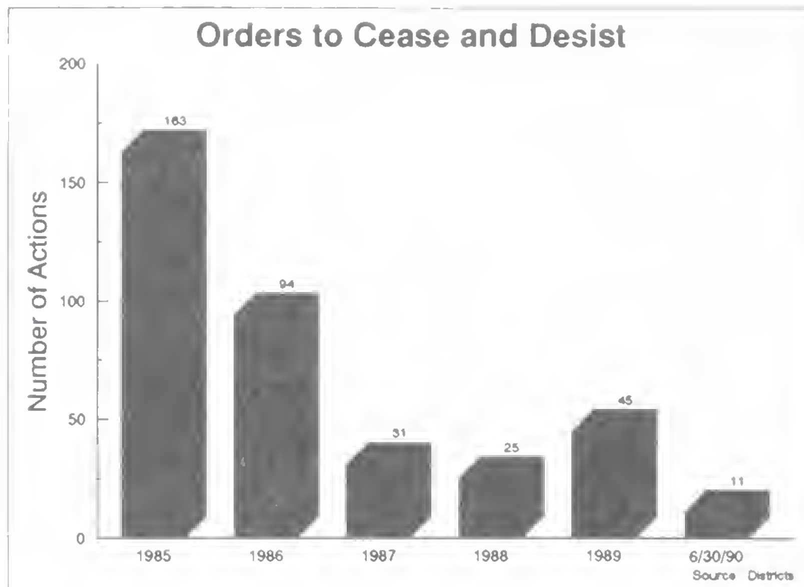
Enforcement Actions

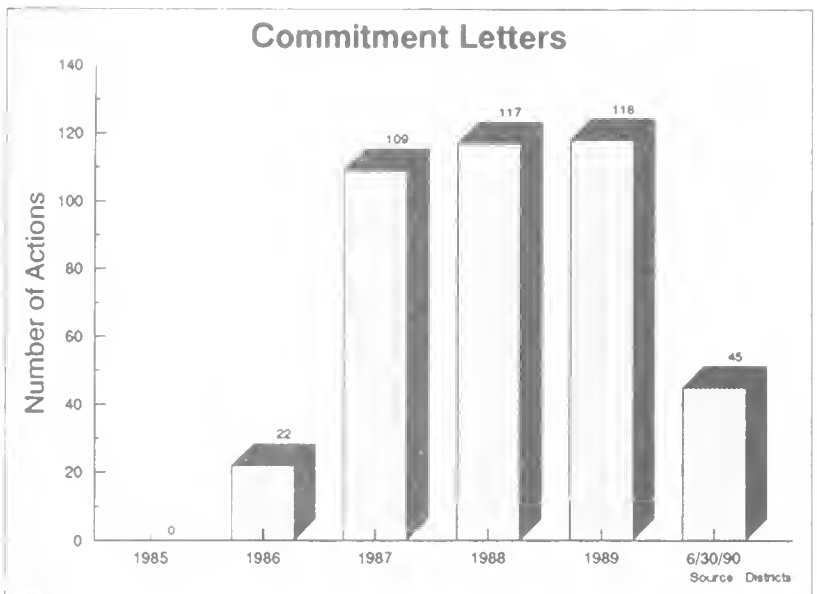
Supervisory problems may be handled by a variety of formal and informal administrative actions. The most common types of administrative actions issued in the past two years have been commitment letters (CLs) and formal agreements (FAs). This remains true thus far in 1990: 60 formal agreements and 45 commitment letters have been utilized as of June 30, 1990. Conversely, memorandums of understanding (MOUs) have declined; only 10 administrative actions have been handled by MOUs in the first half of 1990. The OCC is also occasionally compelled to seek the removal from banking of officers and directors who have violated the law or acted in an unsafe and unsound manner. There were 20 consent removal orders involving national banks as of June 30, 1990.





Cease and desist (C&Ds) orders are another type of administrative action available to the OCC. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) requires the OCC to "publish and make available to the public" any final cease and desist orders issued. Publication may be delayed if it would seriously threaten the safety or soundness of the bank. In making an administrative action public, the OCC would generally determine whether the benefits of educating the public, protecting the bank's customers, and preventing future problems outweigh the potential for harm caused by public disclosure. Eleven C&Ds have been issued as of June 30, 1990.

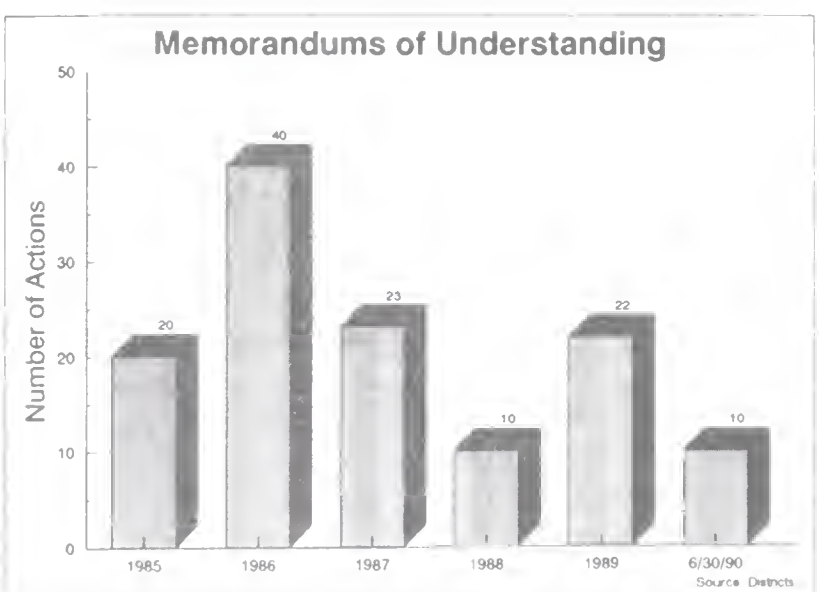




A civil money penalty (CMP) can effectively encourage correction of violations of laws, regulations, and cease and desist orders. A CMP may also deter other bankers from engaging in similar violations. Ninety-three CMP settlements have been reached and one CMP was issued by the Comptroller as of June 30, 1990.

Recent Enforcement Cases

Several of the OCC's recent enforcement cases are described below. They have been chosen because they represent the types of actions taken by the OCC in response to serious violations of law, insider abuse, or unsafe and unsound conduct which significantly affected the condition of the bank.



In a civil money penalty action, the former chairman of the board and chief executive officer of a national bank and its two banking affiliates agreed to pay a $40,000 penalty. This complex case involved accounting and allowance issues as part of the violations of 12 U.S.C. 161 which were charged, as well as violations of sections 84, 60(b) and 375. A related civil money penalty

removal of one of the bank's directors was litigated before an administrative law judge and is currently pending before the Comptroller.

The OCC completed an extensive investigation involving a related group of individuals from the western and southwestern United States who had allegedly attempted to defraud a number of financial institutions through the presentation of hundreds of millions of dollars of worthless negotiable instruments and worthless corporate debentures. This complex investigation involved more than 20 financial institutions, including national banks, state banks, savings and loan associations, mortgage companies, trust companies, and offshore banks. Two national banks suffered a total loss of approximately $2.2 million due to the activity. As a result of the investigation, 13 individuals consented to removals from the banking industry.

The OCC issued two consent removals against the former president and executive vice-president of a community bank who were charged with participation in violations of the legal lending limit, 12 U.S.C. 84, which resulted in loans to a single individual which were equal to more than 90 percent of the bank's capital. The borrower declared bankruptcy and caused the bank to suffer a substantial loss. The former president paid a civil money penalty of $12,000 and the former executive vice-president agreed to pay a civil money penalty of between $12,000 and $20,000. In related matters, three former directors of the bank paid civil money penalties of $5,000 each, and another former director paid a civil money penalty of $2,500.

The OCC issued a consent removal against the former president of a community bank who was charged with violations of the legal lending limit, 12 U.S.C. 84, and with creating fictitious loans in an attempt to conceal the deteriorating conditions of other lines of credit. Both the lending limit violation and the fictitious loans resulted in significant losses to the bank. The OCC is continuing to pursue a $25,000 civil money penalty against the former president.

The OCC initiated civil money penalty, removal, and reimbursement proceedings against a bank director who is charged with receiving a $350,000 overdraft in violation of law which led to a $350,000 loss to the institution. This action represents the first use of the Comptroller's reimbursement authority under FIRREA.

The OCC opened a formal order of investigation into the affairs of a bank which allegedly purchased a $500,000 participation in a loan to an entity in which the bank's chairman of the board allegedly had an interest. The chairman also allegedly caused a trust to purchase the participation on the day the OCC's examiners were scheduled to begin an on-site activity, in violation of OCC trust regulations. This transaction has resulted in a loss to the bank of $500,000, plus accrued interest.

The OCC has entered into stipulation and consent orders with 12 national banks for their late filing of quarterly call reports for the quarters ended September 30, 1989, and December 31, 1989. The penalty amounts, which ranged from $450 to $10,800, depended upon the unique facts and circumstances of each case. Since the enactment of FIRREA, the filing of call reports by national banks has received heightened scrutiny by the OCC in order to ensure that this critical information is filed in a timely manner and may be relied upon by the OCC, the FDIC, and the general public as an accurate statement of a bank's condition.

In a series of five related actions involving the Bank of New England, N.A., Connecticut Bank and Trust, N.A., and three smaller affiliated national banks, the OCC entered into comprehensive consent cease and desist orders dealing with the policies and operations of the banks, the banks' real estate lending practices (particularly in the commercial real estate area) the banks' capital, the banks' allowances for loan losses, and the banks' management.

The OCC's first conservatorship under section 802 of FIRREA was put in place on April 19, 1990, at the Southwest National Bank in Albuquerque, New Mexico. The OCC charged that the bank was operating in an unsafe and unsound condition to transact business due to an inadequate level of management and board supervision, an impaired liquidity position, and an insufficient capital level given the bank's potential loss exposure and overall condition. The appointed conservator, Mr. Alain E. Abejdid, functions as the bank's shareholders, directors, and chief executive officer. The conservator will remain in this position until such time as the bank is sold, merged, liquidated, or returned to its former shareholders, or until such time as the United States district court, in an action brought by the bank's former shareholders, might set aside the appointment of the conservator.

The OCC recently brought actions to remove and assess civil money penalties against the controlling shareholders of two affiliated community banks, and civil money penalty actions were brought against their boards of directors. These actions are based on alleged filing of inaccurate call reports and various insider and affiliate lending violations that occurred at one or both of the institutions. Administrative hearings on these actions are scheduled for late September 1990.

The OCC obtained the consent of the former president and an executive officer of a failed bank to a removal from the financial institutions industry. The OCC had initiated removal actions against these individuals prior to the bank's failure. The removal actions were based upon alleged violations of law and unsafe and unsound practices by the president and executive officer involving the bank's affiliate. The affiliate was engaged in mortgage servicing and selling interests in pooled mortgages on the secondary market. The uncertain financial condition of the affiliate placed funds that the bank had loaned or invested in the affiliate in jeopardy, threatening the solvency of the institution. Ultimately, the mortgage servicing rights of the affiliate were revoked, resulting in the bank's failure.

The OCC issued temporary cease and desist orders against three national banks, their principal shareholders, and a director. The notice of charges upon which the temporary orders were based alleged that in claiming fees for services provided to the banks, the banks' holding company failed to provide, and the banks failed to obtain, proper supporting documentation and justification for the amounts claimed. It was further alleged that the banks' principal shareholders had similarly charged expenses to the banks for services rendered but without documentation or justification. Such lack of supporting documentation was cited as an unsafe and unsound practice contrary to Banking Circular 115. Further, it was alleged that the banks had advanced anticipated income tax payments to the holding company when in fact no taxes were due and payable and the banks were not profitable. Such activity was cited as a violation of 12 U.S.C. 371c and contrary to Banking Circular 105. The temporary cease and desist orders bar payment by the banks of any undocumented or unjustified expenses not satisfying the requirements of Banking Circular 115 and block tax advances to the holding company unless taxes are due and payable. A hearing on the permanent cease and desist orders is being scheduled.

An order of investigation was conducted into possible insider abuse by the board of directors of a now defunct bank. The investigation focused on the financing of the purchase of an insurance agency which was owned by a partnership comprised of majority shareholders of the bank. A cease and desist proceeding was initiated against a bank for numerous violations of Regulation Z (Truth in Lending Act (TILA)). The bank allegedly revealed only the initial discounted interest rate on TILA forms, failing to reveal a "blended" or composite annual percentage rate on hundreds of discounted variable-rate consumer installment loans. Also, the bank allegedly did not include private mortgage insurance premiums on residential real estate loans in the disclosed payment schedule, finance charge, amount financed, annual percentage rate, and total of payments requirements of Regulation Z.

The OCC entered into a comprehensive formal agreement with a regional bank in the Northwestern District. The agreement addressed problems identified as a result of both on-site and off-site analysis of the bank. The agreement directs the bank to conduct a special review of all significant commercial real estate loans, increase liquidity to a sufficient level, and review management and board supervision.

The OCC issued a consent cease and desist order which restricted payments and other favorable transactions to bank insiders, including the bank's chairman, who allegedly directed the use of bank funds to renovate property owned by his wife. The bank's chairman has also consented to a removal from the banking industry.

Recent Corporate Decisions

On April 11, 1990, the OCC conditionally approved an application from Mellon Bank (East), National Association, Philadelphia, Pennsylvania, to acquire 54 branches from Meritor Savings Bank, Philadelphia, Pennsylvania. The approval was conditioned upon Mellon Bank (East) meeting risk-based capital requirements, including a three percent leverage ratio. The transaction will increase the acquiring bank's deposits from approximately $3 to $8 billion.

On April 11, 1990, the OCC disapproved a change in bank control application for a bank in California. The OCC had concerns about the applicant's performance while serving at another national bank in California. Additionally, the management proposed by the applicant was inexperienced in small bank operations. The OCC determined that the proponents lacked sufficient competence and experience to control this particular national bank.

On April 13, 1990, the OCC disapproved a de novo bank charter proposal for Equitable Bank-Potomac, National Association, Rockville, Maryland. In its application, Equitable proposed to immediately relocate the bank to Vienna, Virginia while retaining a branch at the Rockville location. The OCC's chief concern was that the proposal was designed to circumvent interstate branching restrictions. This application differed from similar, previously approved interstate relocation applications because Equitable was not an established bank relocating to serve an existing customer base and because Equitable proposed to retain a branch in the state from which it was relocating.

On April 13, 1990, the OCC conditionally approved a request from First National Bank of Jackson, Jackson, Tennessee to establish a mobile branch facility to be operated throughout Madison County, Tennessee. The approval required the bank to comply with the OCC's minimum capital requirements and to establish a capital plan. News articles have described the decision as an economical way for banks to improve access to banking services for areas and client groups. On April 23, 1990, the OCC approved a similar mobile branch application for the First National Bank in Albuquerque Albuquerque, New Mexico.

On April 13, 1990, the OCC denied an affiliate bank merger application between banks based in Bridgeport, Texas and Dallas, Texas. Both banks belonged to a chain banking group which included a bank declared insolvent on December 8, 1989. The condition of both banks was unsatisfactory and the OCC determined that no benefit would be derived from merging the two institutions.

On April 18, 1990, the OCC approved emergency merger processing of an application submitted by First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania, to purchase nine branches from Atlantic Financial Savings, F.A., Bala Cynwyd, Pennsylvania. Because Atlantic Financial Savings was experiencing liquidity problems, the Resolution Trust Corporation (RTC) asked the OCC to grant emergency processing of the application so that the transaction could be consummated by the end of April.

On April 26, 1990, the OCC approved a request from First Florida Bank, National Association, Tampa, Florida, to relocate one of its branches whose lease was expiring and could not be renewed due to plans for major renovations on the site. The OCC approved the application despite the bank's less than satisfactory Community Reinvestment Act (CRA) record because the branch serves a low- to moderate-income area, the relocation was only a short distance from the original location, and loss of the lease was beyond the bank's control.

On April 26, 1990, the OCC disapproved a change in bank control notice for a bank in California. The bank's overall financial condition had deteriorated significantly since the proposed acquiror's appointment as president and chief executive officer in April 1989. Because of management's lack of attention to correcting the deficiencies that had led to a formal agreement in October 1989, and its poor record of complying with the agreement, the OCC determined that the proposed acquirors lacked the competence and experience to assume control of the bank. The OCC also determined that because of the rapid growth strategies currently employed by the bank, assumption of control was neither in the best interest of the public, the depositors, or the FDIC insurance fund.

On May 31, 1990, the OCC approved a request from Citibank, National Association, New York, New York, to

This section contains summaries of selected corporate decisions completed during the second quarter of 1990. The cases are provided for informational purposes only. They are noteworthy because they represent issues of importance or unusual methods of accomplishing a particular expansion activity. Copies of the public sections of the applications may be obtained from the Communications Division of the Office of the Comptroller of the Currency (OCC) in Washington, D.C.

[illegible] the activities of its operating subsidiary, Citi[illegible] Investments, Inc., to include brokerage as [illegible]. This activity had been approved previously for national banks. The OCC approved similar proposals from Wells Fargo Bank, National Association, San Francisco, California and Mercantile Bank of St. Louis, N.A., St. Louis, Missouri on June 13 and June 20, respectively.

On June 6, 1990, the OCC conditionally approved a charter application for Tysons National Bank, Vienna, Virginia. The OCC conditioned the approval on applicants' agreement that stock warrants at the holding company level would be exercised or forfeited in the event of a capital call at the bank.

On June 11, 1990, the OCC approved a charter application for Milton National Bank, Rosewell, Georgia. The OCC found that the terms of the bank's proposed warrants were acceptable because they were required to be exercised or forfeited in the event the bank needed additional capital.

On June 11, 1990, the OCC conditionally approved an application to establish The National Trust Company, Atlanta, Georgia, as a trust bank that will specialize in the administration of employee benefit plans. The proposal was unusual because the trust accounts will be managed by outside investment advisors. Approval was conditioned on the applicants obtaining an independent appraisal of the pension plan administration company that was to be acquired by the trust company. The OCC also required the organizers to either exercise or forfeit their holding company stock warrants in the event of a capital call.

On June 13, 1990, the OCC denied a request submitted by a bank in Louisiana to declare an emergency so that its application to merge could be processed under the expedited procedures of 12 U.S.C. 1828(c). Although the target bank was experiencing significant problems, the OCC determined that it was not in imminent danger of failing and thus the requirement for declaring an emergency was not present.

On June 15, 1990, the OCC denied an application to establish a de novo national bank to facilitate the acquisition of a failed thrift, Bexar Savings Association, San Antonio, Texas. The new bank's operating plan reflected a very high concentration (70 percent of total assets) in FNMA ARM pass-through securities. Proposed capital, at 3 percent assuming a run-off of core deposits, fell far short of what the OCC believed was adequate protection against the risks inherent in concentrated holdings of such securities. The OCC also believed that the proposal failed to provide for adequate management to direct this specialized activity.

On June 18, 1990, the OCC submitted negative comments to the Federal Reserve Board on a proposal by Enterprise Financial Corporation, Orlando, Florida, to acquire The Enterprise Bank, National Association, Winter Park, Florida, and Enterprise National Bank of Tampa, Tampa, Florida. Enterprise Financial proposed a warrant arrangement wherein the proposed warrants carried an exercise price of 75 percent of the original offering price and the shares would not have to be exercised or forfeited in the event the banks needed additional capital. The OCC determined that the holding company's future ability to raise additional capital for its bank subsidiaries could be adversely affected by the terms of the proposed warrants.

On June 18, 1990, the OCC approved a proposal by Colorado National Bank of Denver, Denver, Colorado, to expand the activities of its wholly owned bank service corporation to provide clerical and certain correspondent services for other financial institutions, to purchase equipment and supplies, and to provide vehicle pool and property management services for its affiliates. The OCC found all of the proposed services to be incidental to banking and therefore permissible activities for a bank service corporation.

On June 28, 1990, the OCC granted approval for FirsTier Financial, Inc., a regional bank holding company headquartered in Nebraska, to establish a national bank with three branches in Omaha. The bank's branches will be located in grocery stores.

On June 29, 1990, the OCC conditionally granted a national bank charter to First Deposit National Credit Card Bank, Concord, New Hampshire, a Competitive Equality Banking Act (CEBA) credit card bank. The parent company currently owns a grandfathered credit card nonbank bank in Tilton, New Hampshire, which is subject to CEBA-imposed growth restrictions on grandfathered institutions. The proposed new bank would provide the parent company with a way to expand its credit card operations. The OCC decided that the proposed bank had a reasonable likelihood of success and that the application should not be viewed as an inappropriate means of circumventing the nonbank bank growth restrictions since CEBA, the same law that imposed the restrictions, specifically authorized the establishment of credit card banks by nonbank holding companies. Approval was conditioned on the bank maintaining a loan loss reserve of at least 12 months' historical loan losses.

Corporate Decisions Related to the Community Reinvestment Act*

On April 3, 1990, the OCC conditionally approved two CBCT applications submitted by Sunwest Bank of Albuquerque, National Association, Albuquerque, New Mexico. The bank's performance was considered less than satisfactory in determining community credit needs and in monitoring and analyzing geographic distribution of credit. Although the bank had developed an action plan to correct the deficiencies, the OCC required additions to the plan and withheld approval to establish the CBCTs until performance under the plan is demonstrated.

On April 9, 1990, the OCC conditionally approved three CBCT applications from the First National Bank of West Chester, West Chester, Pennsylvania. The OCC determined that the bank's performance under CRA was not satisfactory in identifying credit needs within its delineated community, in assessing its marketing efforts within all parts of its community, and in reviewing the geographic distribution of its credit extensions. The bank may not establish the CBCTs until the board of directors has adopted or ratified a CRA compliance program acceptable to the OCC.

On April 16, 1990, the OCC conditionally approved a branch application filed by Firstar Eagan Bank, National Association, Eagan, Minnesota. Review of the bank's performance under CRA indicated a less than satisfactory performance in identifying credit needs within its delineated community, in assessing its marketing efforts within all parts of its community, and in reviewing the geographic distribution of its credit extensions. The branch cannot be opened until the bank has achieved a satisfactory CRA rating.

On May 7, 1990, the OCC conditionally approved a branch relocation application submitted by Pacific National Bank, Miami, Florida. In reviewing the proposal, the OCC determined that the applicant's CRA performance was less than satisfactory in identifying credit needs within its delineated community, in assessing its marketing efforts within all parts of its community, in reviewing the geographic distribution of its credit extensions, and in becoming active in community development. The OCC conditioned its approval on the bank conducting marketing studies to identify community credit needs and expanding the types of credit it offers and extends to address the identified needs, broadening its advertising program, adopting methods to improve the distribution of credit throughout its delineated community, enhancing its efforts in community development, and adopting an effective program to review compliance with consumer laws and regulations. The relocation cannot occur until these conditions have been met.

On May 23, 1990, the OCC denied a request to relocate a branch office of Brenton National Bank of Des Moines, Des Moines, Iowa. The denial was based on the bank's CRA record of performance, which was considered in need of improvement in identifying community credit needs within its delineated community, in assessing its marketing efforts within all parts of its community, and in reviewing the geographic distribution of its credit extensions.

On May 23, 1990, the OCC conditionally approved a CBCT application for First Florida Bank, National Association, Tampa, Florida. The OCC determined that the applicant's CRA performance was less than satisfactory in analyzing its geographic distribution of credit applications and extensions, and in becoming active in community development and redevelopment pro-

Cross-county Applications
(as of June 30, 1990)

State	*Received*	*Approved*	*Denied*	*Pending*
Alabama	1	1	0	0
Colorado	2	0	0	2
Florida	13	13	0	0
Georgia	1	0	1	0
Indiana	2	1	0	1
Kansas	6	5	1	0
Louisiana	22	22	0	0
Mississippi	2	2	0	0
Missouri	2	2	0	0
New Mexico	1	0	0	1
Tennessee	20	20	0	0
Texas	6	6	0	0
Wisconsin	3	3	0	0
TOTAL	81	75	2	4

Note: These figures refer to cross-county branch applications filed with the OCC as a result of its previous Deposit Guaranty decision.

*This section is provided pursuant to Banking Circular 238 dated June 15, 1989. It includes summaries to provide easier access to OCC decisions relating to national bank corporate applications that have been conditionally approved or denied on grounds related to CRA. The decision letters are published monthly in a document entitled Interpretations, which is available upon request from the Communications Division.

grams. The CBCT may not be established until the bank analyzes its geocoded information and establishes and maintains regular communication with civic and community leaders regarding community development programs within delineated communities.

On June 1, 1990, the OCC granted conditional approval to a branch application filed by The Mid-City National Bank of Chicago, Chicago, Illinois. The OCC determined that the bank's performance under CRA was less than satisfactory in identifying community credit needs and in assessing its marketing efforts within all parts of its community. The OCC noted that while the bank had initiated actions to improve its performance, the actions have not been in effect for a sufficient amount of time for the results to be measured. The branch cannot begin operations until further improvements in the bank's CRA record have been noted by the bank's supervisory office.

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As you know, I practiced law in Texas for 16 years before I was named Comptroller of the Currency in 1985. Practicing lawyers, as you also know, look for every opportunity to make money. That lesson was brought home to me the very first week of my working life.

At the firm where I started, I was assigned to work with a senior partner who would show me the ropes. One day, a man with some legal problems came in to the partner for some help. The partner said: "You can ask me two questions for five hundred dollars."

"Isn't that kind of high?" the man asked.

"No," said the partner, "what's your second question?"

Yes, practicing lawyers do look for every opportunity to make money. But so, too, do bankers. And for good reason. Making money is why bankers are in business. The record shows that providing financing for low- and moderate-income housing can be good business — if it is done right.

Because I keep that simple fact always in mind, I can say that it is a pleasure for me to welcome you to this OCC conference, a conference that highlights the broad range of public and private resources available to help bankers structure financing for low- and moderate-income housing.

Over the years we have learned several important lessons about financing low- and moderate-income housing. One thing that we have learned is that the nation's low- and moderate-income housing needs cannot be met through federal government programs alone, though these remain important. Private sector financing, especially financing and OCC-approved equity investments that national banks can provide, is increasingly critical to the process.

A second major lesson is that, in most cases, banks cannot meet all the needs for low- and moderate-income housing alone either — and should not be expected to. That is because financing low- and moderate-income housing is not easy, especially if banks attempt to do it alone, without consideration of the growing number of potential community partners and national intermediary organizations and resources that are available to help.

OCC and many banks have also learned that there is no one best road map for all banks to follow in this field. Each bank must assess its own community's needs for low- and moderate-income housing. Each bank must take steps to become aware of community organizations, federal, state, and local housing programs, and other existing housing programs. Based on that assessment, each bank must also develop its own game plan for helping finance low- and moderate-income housing.

That is one reason why the OCC continues to encourage banks to conduct community outreach and to work with outside organizations that provide financial and technical assistance to help banks leverage their resources. Ongoing outreach to assess community needs is a critical part of the process. It helps banks identify credit needs and business opportunities. It makes banks aware of the broad range of existing resources and opportunities within their communities. Outreach by banks also helps make their communities aware of the types of assistance banks can provide. It helps banks develop programs that leverage their resources in a way that make financing appropriate. Most important, it also makes good business sense to be in regular contact with those public and private organizations specializing in low- and moderate-income housing development and finance because bankers can make money doing so. It also enhances a bank's Community Reinvestment Act record, which is always a matter of interest to bankers and bank supervisors alike.

There is a growing network of national intermediary organizations, state and local government agencies, and local development groups that focus on low- and moderate-income housing. These resources can assist a bank in formulating and executing its game plan. These organizations can help provide leadership, expertise, and financial resources. And they seek bank participation more and more to help leverage their limited resources with bank financing.

You are here today to explore these resources in detail. I would briefly like to touch on four of those resources to give you an idea of what is to come.

One, state and local government housing finance, community, and redevelopment agencies may represent an important resource for a bank. They provide below-market rate financing, interest rate subsidies, loan guaranties, and tax incentives. They help deliver federal housing program resources at the local level. They conduct housing studies and provide technical

and financial support for private and nonprofit developers.

An example of what can happen when a bank works with local government agencies is Security Pacific National Bank's home improvement loan program. The program provides reduced-rate financing for improvement or rehabilitation of single family or multifamily housing in targeted neighborhoods specified by local housing agencies. Under contractual arrangements with city or county housing agencies and authorities, federal Community Development Block Grant (CDBG) funds are used by local agencies as interest rate subsidies or principal reduction payments for loans originated and serviced by the bank. Since 1976, Security Pacific's programs in California have generated more than $250 million in reduced rate housing loans. The bank now operates programs in conjunction with more than 80 California communities to use CDBG funds for lower-rate home improvement loans in more than 140 areas.

Local development groups, including nonprofit community development corporations and the intermediaries that support them, can also be key resources for a bank. They identify housing needs, arrange equity investment, and help develop financial packages for consideration by banks. In the Philadelphia area, for example, the Mellon Bank, Philadelphia National Bank, and Continental Bank have worked closely with the Greater Germantown Housing Development Corporation, a community-based nonprofit group. The corporation has rehabilitated 90 houses in low- and moderate-income neighborhoods. The banks have provided construction loans for the nonprofit group's projects and permanent mortgage loans for the lower income purchasers of the houses.

It is not only larger banks that work with the variety of community resources. Smaller banks have developed a number of creative programs based on needs and resources in their communities. For example, the National Bank of Boyerton, a small bank in Pennsylvania, has been particularly imaginative in working with local housing development groups to finance low- and moderate-income housing. A major resource in this effort is its "Share Account," an investment account which provides loans primarily to help finance closing costs for low-income home buyers. The account is used most frequently in a home purchase program involving the bank and the local Neighborhood Housing Services (NHS) program. The bank provides 90 percent first mortgage financing and NHS funds 10 percent second mortgages to finance the down payment. While the bank loans are at market rate, no points are charged.

The program, in conjunction with "Share Account" financing of closing costs, makes it possible for a home buyer to finance and purchase a house with as little as $1,500 in cash for closing costs. Additionally, the bank works with two local nonprofit development corporations that buy and rehabilitate abandoned housing for low- and moderate-income sale or rental. The bank has provided loans on more than 50 of these houses.

The traditional secondary market agencies, as well as other specialized secondary market intermediaries, also serve as an outlet for bank housing loans. For example, the Federal National Mortgage Association (Fannie Mae) is participating with American Security Bank as key players in HomeSight, a Washington, D.C. public/private partnership designed to make homeownership a possibility for lower income families. In addition to local lenders and Fannie Mae, the partnership involves local nonprofit development corporations, the Local Initiatives Support Corporation (LISC), and local government. American Security is involved in two ways: funding of acquisition, rehabilitation, and construction through unsecured lines of credit guaranteed by LISC to the development corporations and as a member of a consortium providing permanent financing. Fannie Mae has agreed to purchase up to $15 million in first mortgages on HomeSight properties, which will be available to buyers with incomes no greater than 80 percent of the area median income. Joint lender, Fannie Mae, and local government financing will make houses available to approximately 300 buyers.

Finally, as noted in the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), both single family and multifamily foreclosed properties represent another resource for development of low- and moderate-income housing. Banks can be looking for opportunities to help meet low- and moderate-housing needs in their communities by working with local agencies and development groups that are focusing on reuse of foreclosed housing.

These resources and these examples demonstrate that banks have been creative in reaching out to their communities, identifying opportunities, and developing programs for low- and moderate-income housing. Yet there is no simple formula that a banker can use to help meet low- and moderate-income housing needs. Markets differ. And market situations differ within the same market. What may be appropriate for one institution may be totally inappropriate for another. Bankers must manage their own way.

Yet the effort can and often does result in benefits for a bank. Helping finance low- and moderate-income housing can lead to great business for the bank as its

investment ripples through the local community, generating more and more economic growth. And such investment can engender vast amounts of goodwill for the institution, though I must warn you that this goodwill will never become a component of minimum capital standards for national banks.

In my experience, bankers are the most bottom line oriented people in the world. They are trained to be. No one succeeds in banking unless the bottom line comes first.

The most hardnosed client I ever had when I was an attorney was a banker. This man's father had died, leaving no will and many complications with the estate. The son hired me and, after many months, I got everything worked out. To show his appreciation, the client took me to lunch. We sat down and I said, "This has been an ordeal for you, hasn't it?

"Yeah," he replied, "sometimes I wish that Dad hadn't died."

Yes, bankers think of the bottom line first, which is why we encourage bankers to investigate the resources you will explore at this meeting here today. If you are not in regular contact with those resources, you may be missing important business opportunities.

Remarks by Robert L. Clarke before the National Association of Home Builders, on the availability of mortgage credit, Washington, D.C., May 19, 1990

I am here today to give you a clear sense of the direction in which the Office of the Comptroller of the Currency (OCC) is going and why. What does the OCC mean to you? And why are national banks important to homebuilders? A few numbers give clear and unmistakable answers to these questions.

Over the last few years, the long-term dominance of thrift institutions in mortgage financing has eroded. That erosion has changed the mortgage lending business dramatically. In 1985, thrifts originated 44 percent of mortgages to purchase one-to-four family dwellings, banks originated 21 percent, and other financial servicers originated 35 percent. By 1989, originations by thrifts decreased to 39 percent. Originations by other financial servicers dropped to 27 percent. But originations by commercial banks rose to 35 percent.

Thus, in just four years the percentage of mortgage originations made by commercial banks rose from 21 percent of the total to 35 percent — thereby putting commercial banks and thrifts on just about equal footing in the business.

The OCC is the primary supervisor for the nation's 4,200 national banks, about one-third of the total. But because this one-third includes most of the larger U.S. banks, national banks hold about two-thirds of the banking assets in the country. So the OCC is important to homebuilders because we supervise a source of mortgage funds that grows larger all the time and a source that represents more and more of the funds available for mortgages all the time: the national banking system.

Now I know who you are and why you are important. Prior to accepting my current position as Comptroller, your president, Martin Perlman, and I were business associates. Indeed, when I was a member of a board of directors of a small bank in Houston, Martin was one of our best customers.

Through many discussions, Martin has given me a good understanding of your concerns. I would now like to talk with you about mine. I will warn you that my overview of what bank supervision concerns itself with will be clear and logical. Logic is the method of thinking that allows you to cut through bunkum, however well intentioned that bunkum may be.

When we first look at banking supervision as it is practiced at the OCC, we might be puzzled. The function of commercial banking is to make money, primarily by making loans, and as the term "commercial" implies, the purpose of banking is to support the economy, in particular by funding business people. The public prefers a growing economy to an economy that does not grow. The public preference for economic growth means that it wants businesses to be funded. One such very important business is homebuilding — because the public in our country has a great demand for new, bigger, and better housing. At the same time, the public demands a safe and sound banking system to fund this growth, a system that is backed by a sound deposit insurance fund.

But sometimes the two wants — economic growth and a safe and sound financial system — appear to come into conflict, and there arises a temptation either to try

[illegible] precedence over the other [illegible]. However, giving in to either of those temptations would lead to disaster because the two [illegible] in conflict for long.

As a bank supervisor, the OCC operates under the principle that in the long run economic growth, business expansion, and the long-term health of homebuilding must rest on a firm foundation: a safe and sound financial system in general and a safe and sound national banking system in particular. All the theory in the world argues that the principle that economic growth must rest on a safe and sound banking system is correct. And in the laboratory called "real life," the recent experience of the savings and loan industry also supports the principle.

We put this principle into practice through strong and appropriate banking supervision. Our strong and appropriate banking supervision is one major reason, perhaps even the primary reason, why mortgage financing had the banking industry as a deep pool in reserve when its major pool of funding, the savings and loan industry, began to evaporate.

There is an extraordinarily important point here, a point that is often overlooked: Government's interest in assuring that the financing mechanism remains strong is a policy intended to benefit all of a financial institution's customers — depositors and borrowers alike.

In the last 55 years or so, we have tended to stress the benefits to the depositor, a trend that has grown along with the growth in size and importance of the federal deposit insurance funds. But the rationale behind supervision is more than merely protecting the assets of depositors. It is also an attempt to assure that the class of bank customers known as borrowers, who want to put credit to productive use, have a long-term source of funding.

Indeed, one might say that this interest in borrowers was what led the federal government into a banking policy in the first place. For example, when he was Secretary of the Treasury two centuries ago, Alexander Hamilton sent letters to Congress and to President George Washington that argued for the creation of a government-sponsored institution that would, in part, meet the needs of merchants for financing. As Hamilton argued in a report to Congress, "... by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth — a consequence as satisfactorily verified by experience, as it is clearly deducible in theory."

[illegible] efforts led to the creation of such an institution, the First Bank of the United States. This institution did not lend any amount to anyone who walked through the door. It was managed prudently. But in the 20 years that its charter ran, the First Bank of the United States financed the expansion of post-Revolutionary America.

In the 1830s, the commercial banking business became a private sector activity totally, and has remained so, with a large dose of governmental direction. Which is understandable, because banks and bankers have long been viewed with awe and suspicion due to their crucial role in financing the ventures of others. Hence pressures for supervision of banks grew as people realized that the failure of a bank meant not only the loss of assets — personal and business — of its customers. When a bank fails, the repercussions can spread regionally, even nationally.

The welfare of borrowers — then the welfare of the public at large — then the welfare of depositors: These are the three chapter headings in the history of bank regulation in the United States.

You may now be asking yourself something like: "If Bob Clarke says that the federal government got into the banking policy of promoting a safe and sound banking system to assure business people a source of credit, why do banks turn down loans?" This question reminds me of the time I was shopping in the small town where I grew up and I overheard Joe and Jim, two men I knew, talking.

Joe said to Jim: "At her request you gave up drinking?" Jim said: "Yeah." And Joe said: "At her request you gave up smoking?" And Jim said: "Yeah." Joe said: "For the same reason you gave up dancing, poker, and gambling?" Jim said: "Yeah." Then Joe said: "Well, then, why in the world didn't you marry her?" And Jim said: "Well, I felt that after I'd improved myself so much I could probably do better."

You can demand quality to the point that the demands become counterproductive. We are quite aware of that. We are also aware that in banking, an investment — a loan to a small business or a family mortgage, whatever — is either performing to agreed upon terms or it is not. If it is not, something is wrong. It could be a little wrong, it could be disastrously wrong, or somewhere in between. Wherever it falls, it is wrong.

Unlike the kind and forgiving school teacher, reality does not accept and reward the answer closest to the right one, though the consequences reality imposes upon those with the wrong answer do often vary proportionately with their degree of error. In other words, the smaller the problem, the easier it is to fix — usually.

At the OCC, we recognize reality — and that means we recognize a problem when it is a problem — and we expect bankers to recognize it, too. After all, bear in mind the simple fact that the OCC is not the only one that bank management has to answer to. Bank management must also be able to support its credit decisions to its board of directors and its shareholders. So we encourage, coax, caution, intimidate, and compel national bankers into focusing on the quality of their investments and improving them if necessary.

How do we do that?

Our job of bank supervision includes three important tasks. One, we ensure that banks adopt and adhere to sound credit practices. Two, we ensure that their books accurately reflect the value of their assets and liabilities. And, three, we ensure that national banks establish management systems capable of tracking bank activities and reasonably anticipating and adjusting to changing market conditions. In other words, we expect bankers to have mechanisms in place to conduct their own asset quality review to search for faults and, ideally, we should then only have to check to see that the mechanisms exist and that they are performing as intended.

But in the less than ideal world in which we live, we often find faults that bankers have not recognized for whatever reason, and we do what it takes to make bankers recognize them.

In a nutshell, that is bank supervision.

Its goal — as I have stressed — is to assure that bankers recognize reality. Its goal is to assure that a banker has an understanding of his or her financial institution's condition that is true and reasonable. Its goal is to assure that bankers make managerial decisions that reflect this true and reasonable understanding. Nothing less. And nothing more.

We do not make individual credit decisions. That is what bankers are paid to do. We do not set monetary or any other type of economic policy. That is not our job. Be suspicious if a banker ever tells you that he cannot make a loan because the examiners will not let him. Be suspicious if a banker ever tells you he had to foreclose on a piece of property because the examiners told him to foreclose. We have not repealed the basic rules of banking, including the practice of bankers working with customers during economic declines. That means working with customers to restructure loans, if necessary. We have not told bankers not to make loans. We have reminded them to take care in making loans. Similarly, we are not telling them to cut off credit from good customers. And we do not tell bankers to foreclose on property. Let there be no misunderstanding — I am not here to bash bankers. The vast majority of bankers in this country manage their banks very well. I think, however, that we must all recognize that banking is like any business. It has its ups and downs. It also has a wide range of managerial talent.

Weaknesses in real estate are not a new, different species that have just evolved. Along with agriculture and energy, to name two other examples, real estate has long been recognized as a cyclical industry.

Bankers get paid for assessing risk, taking risks, managing risks, and working out problems when they can. They maintain capital — we require them to do so — to provide a cushion against shocks. Capital allows banks to sail through rough seas without smashing the hull or foundering. The capital cushion that we require allows them to survive economic downturns — just as well capitalized homebuilders can withstand cyclical slowdowns in the housing market.

Perhaps it was unavoidable, given the recent history of the savings and loan industry, but in thinking about what I would say to you today the Greek fable about the goose that laid the golden eggs kept returning to my mind. Sure, that may be a commonplace reaction. But it is an understandable one. For the moral of the story is true, and clear, and apt.

You remember the story: A farmer had a goose that laid golden eggs. Thinking to make himself rich, he killed the goose to get the whole stock of eggs at once. When he sacrificed future reward for present gain, he lost his regular source of supply.

Like the goose that lays golden eggs, the national banking system creates wealth. We intend to give it the nurturing care it takes to keep it safe and producing.

Our job at the OCC is to assure that the national banking system remains safe and sound; and that it remains safe and sound not just today, not just tomorrow, but next week, next month, next year, and on and on.

Just as the Comptrollers of the Currency in the 19th century worked to assure the strength of the national banking system in the 20th century, we work today so that business — homebuilders, retailers, trucking companies, you name it — will have a strong banking foundation on which to build in the 21st century.

Remarks by Robert L. Clarke before the Washington Area Bankers Association, on the availability of credit, Hot Springs, Virginia, June 15, 1990

The recent flooding of the Trinity River in Dallas reminded me of a story that was popular around my house when I was growing up. There was this elderly man who was sitting on his porch whittling during the worst flood this part of the country had ever experienced. The river was rolling and the rains were coming down terribly. A boat came by and a man hollered: "Come on, brother Bill, get in the boat! The floods are coming and you're going to drown."

Bill said: "The Lord will take care of me." And he just went on whittling.

Another boat came by and a man spied Bill on top of his house, whittling. The man yelled: "Get in here, Bill, and go with us!"

"No, sir," replied Bill, "the Lord will take care of me."

In a few minutes, the National Guard came by in a helicopter and there was Bill hugging the chimney, and a man with a loud speaker called out: "Climb up the rope ladder we're lowering to you."

And Bill said: "No sir, the Lord's taking care of me."

And about that time the house washed down the river.

Bill woke up in heaven. He looked at St. Peter and asked: "You let me down — why?"

St. Peter replied: "Let you down? Who do you think sent the boats?" Who do you think sent the helicopter?"

The OCC does not, for a minute, think of itself on the same lofty levels as St. Peter and his associates. Nor do we think of ourselves as existing just to examine banks. That is one of our functions. But it is not our reason for being.

Our reason for being is to promote a safe and sound banking system by helping institutions avoid a flood of troubles if they can, and by helping them to safety if they cannot. But for the OCC to succeed in doing this job, it needs your cooperation. We cannot save a troubled institution or a group of troubled institutions if bankers are unwilling to work with us.

As Comptroller of the Currency, I manage the agency's day-to-day activities. But I took the job with the intent not [illegible] but to advocate, promote and [illegible] four important and critical policy objectives. [illegible] to expand the business of banking by redrawing the legal scaffolding around the industry so that bankers can do more types of business — and more profitable types of business, as well. In short, to be more competitive. The second policy objective is to change bank supervision from a passive to an active process in order to address problems — be they in asset quality, in systems and controls, or in management — faster, so that the damage they inflict is lessened. In other words, to get there and extinguish the fuse before the bomb goes off so that we do not have to put the pieces back together. The third objective is to improve the education, training, and expertise of national bank examiners — to raise the professional quality of the staff — the same approach, I know, you take with your own staffs at your own institutions. The fourth is to improve the relationship the agency has with bankers; I want the OCC to be a constructive force in improving your institutions, not your adversary.

I believed — and I still do — that these policy objectives are intertwined and that they are all necessary for us to continue to accomplish the OCC's mission.

I believed — and I still do — that bankers and bank supervisors have a community of interest in making sure the banking system remains safe and sound.

I believed — and I still do — that a safe and sound banking system is the foundation for, and an essential ingredient in, economic growth and prosperity.

Finally, I believed that if we approached bankers in good faith, with reason, logic, and evidence, bankers would respond appropriately.

Do I still believe that?

Yes — I still do — I would not be here otherwise.

How can I prove my good faith?

I have said it before and I say it to you again today. If any of you has a substantive disagreement with an OCC finding concerning the judgment of OCC examiners, you can appeal: to me.

That being said, I must now appeal my case to you.

The OCC has been charged in public meetings and in the media with a sudden about face with respect to real estate lending. The charges have been particularly vocal in the Washington area. The motives attributed to

the OCC for its continuing and close look at bank real estate lending are various: We are trying to offset our record in Texas and the Southwest, we are trying to calm the fears of Congress, we are scared by what happened to the Federal Home Loan Bank Board, we are trying to prove we are macho.

Each of these alleged motives is simple, concise — and mistaken, as is the assumption that sometime last winter we woke up one morning with an attitude toward real estate lending that was 180 degrees from that we went to bed with the night before.

The true reason is just as simple and just as concise. We have genuine concerns about real estate lending in some markets, concerns arising from empirical evidence. Furthermore, these concerns, and our response to them, have arisen over a period of years.

In 1987 — three years ago — we began to look closely at real estate data from all across the country and particularly from the faster growing markets. After all, we had some experience by that time with just how disastrous a collapsing real estate market can be. We had no preconceived notions of what we would find. Rather, we were checking to see if conditions warranted a more in-depth study. And we concluded that they did, much as a screen in a routine physical examination might lead to more specific tests.

In April and May of 1988 — more than two years ago — we conducted a special, detailed review of commercial bank lending in 13 of the largest regional banking companies in the United States, banking companies outside the devastated Southwest. Our review covered the adequacy of the banks' lending policies and the systems which they used to assess and control present and future risks. These banks were chosen for special analysis because they, in some measure, had evidenced known weaknesses: loan growth rates, levels of risk, product lines, preponderance of lending in softening markets, and so on.

We did not uncover an unusually high level of problem loans or any significant deteriorating trends in the banks, but a number of banks demonstrated weaknesses in policies and in control systems that had the potential to cause problems in the future, particularly if the economy or their markets were to slow.

Our examinations focused on policies, practices, systems and controls, and they were basically broken down into several areas of the lending process: management supervision, internal monitoring processes, underwriting standards, appraisal processes, economic market analyses, control systems, quality of documentation, portfolio condition, and future strategies.

What did our examinations find? To make a long story short: problems.

Many weaknesses existed in the policies and control systems of the companies we reviewed. Some banks had systems that were inadequate to identify and manage effectively their commercial real estate lending risks. Many banks were operating under general statements of policy without specific standards built in to control risk adequately. Few of the banks had controls for directors or senior management that enabled them to know whether actual lending practices met the requirements outlined in bank policies. Underwriting standards gave us concern, for many banks had informal underwriting standards rather than written policies. And while guarantees were almost always required, many banks did not maintain adequate financial analysis of the guarantors.

Problems with appraisals were also evident. Few of the banks had adequate independence built into the appraisal process. In fact, loan officers themselves often prepared appraisals without adequate independent verifications. Most disappointing, none of the banks had formal policies and procedures governing reappraisals. And, most of the banks did not have adequate procedures in place to document the validity of the assumptions on which an appraisal was based. Furthermore, documentation quality was mixed. Several banks had significant problems in the development and maintenance of documentation standards, and in the tracking of exceptions to those standards.

Along with these procedural and technical problems, we found substantive problems. For example, some banks had large concentrations of loans to a relatively small number of developers and were, thus, particularly vulnerable to a downturn in the economy, even though the borrowers themselves were top-tier at the time of the review.

As you might expect, we met with the officers and directors of each of the banks that we studied. And the managements agreed to take the actions necessary to improve each of the areas of concern. At that time, we also issued warnings to other banks that we knew were in similar circumstances.

We also decided that the results of the study were so important and meaningful to other institutions in the banking industry that we should inform bankers of what we found and what our concerns were. In November 1988, I spoke to the Association of Bank Holding Companies and told them almost word for word exactly what I told you just now about our study, its findings, and our concerns. At that time, I went into much more detail about the findings than I will today.

Because of the importance of our findings, we sent the chief executive officer of every national bank in the country a copy of the speech. The advisory memorandum which accompanied the speech was the eighth of only nine advisories we sent to bankers in 1988 to express the concerns of the OCC at that time. So that no one would miss the point, the advisory stated:

> As more banks have increased their commercial real estate lending activities, competition in this market has intensified. Unfortunately, in an effort to compete more effectively for commercial real estate credits, the OCC has found that some banks are failing to follow sound principles in making these loans and monitoring their performance.
>
> One difficult aspect of this problem is the fact that it is not obvious to most bankers — as long as the economy is growing, banks generally make profits on real estate loans regardless of the quality of their internal controls. However, the failure to follow prudent real estate lending principles and to review portfolio performance at regular intervals makes some banks uniquely vulnerable to downturns in the local and national economy. In fact, we have already seen softening in commercial real estate markets in some areas of the country outside the Southwest.

The advisory, signed by Dean S. Marriott, Senior Deputy Comptroller for Bank Supervision Operations, went on to state: "I encourage you to read the Comptroller's speech and to review your bank's real estate lending policies and practices in light of the points made in the speech. This OCC Advisory is provided for your information and guidance. I urge you to discuss it with your management and full board of directors."

As I have stressed, we made public the general results of our review to advise other banks of the dangers to which they might have been exposed. I think you would agree with me that the OCC is not exactly reticent in communicating its concerns. I would hope that bankers would not want us to be reticent in communicating our concerns, because bankers should want to be alerted to the problems we foresee.

I said then — and I will say again now — that no one suggests that banks should stop making commercial real estate loans. Far from it.

Lending on commercial real estate has traditionally been a safe investment and it is good business. But no one makes money on an empty or half occupied building. And banks are not in the business of making loans. Banks are in the business of making money.

A profitable bank is, other things being equal, a sound bank. Bank supervisors want to see profitable and sound banks. Bank shareholders want to see profitable and sound banks. Bank directors want to see profitable and sound banks. And bank managements should want to see profitable and sound banks. An unsound bank cannot be profitable *in the long run* — and an unprofitable bank cannot be sound.

I am not suggesting that banks stop making real estate loans. I am suggesting that banks take a close look at how and where they are making them. I am suggesting that bankers should know the condition of borrowers and guarantors and, thus, the condition of their loans. Bankers should know the condition of their markets and have plans in place to lessen damage should a problem occur.

I do not see where any of that is controversial.

We will continue to look for problems. We know what the tracks look like. And we can follow them.

For that reason, we began in the spring of last year to conduct special examinations of bank real estate activities in several markets showing actual signs of slowdown or decline.

We want bank management to control problems before the problems control bank management. As the brief history of this issue I just covered so clearly reveals, the focused examinations follow years of expressing our concerns. No one is served by the denial that problems do not exist. Just as no one is served by a knee-jerk reaction to shut down financing across the board. Recognition of weaknesses in no way calls for a denial of strength. Rather, the realistic course is to consider the problems that exist, one by one, and to resolve them so that the Washington area can continue, figuratively and literally, to build on a firm foundation.

If you are a ship's captain and your navigation system tells you that you are off course, you do not drop anchor. You do not return to the port from where you started. You do not scuttle your ship. You make a mid-course correction and you proceed.

The British satirist Douglas Adams has created a wonderful character by the name of Dirk Gently, a supersleuth who solves mysteries by exploring the connections that tie everything in the universe together. His method of driving his car from point A to point B is to enter the highway, look for another driver who seems to know where he is going, and follow him. Dirk Gently

admits that he rarely arrives at the destination he sets out for, but he says he usually ends up where he needs to be.

As a bank supervisor, I do not have that kind of faith in the interconnectedness of the universe. I am of the opinion that bank safety and soundness is too critical to the economy to leave to chance.

We — bankers and bank supervisors alike — [illegible] our actions can have great influence [illegible] over what the future will bring. It would be irresponsible for any of us to avoid making the decisions that need to be made.

Remarks by Robert L. Clarke before the Annual Meeting of the National Realty Committee, on real estate lending, Washington, D.C. June 20, 1990

It is not often that I feel like John D. Rockefeller. But lately, my feelings have become not unlike those of the great financier when he was accosted outside his office by a smooth-talking panhandler who announced: "Mr. Rockefeller, I hiked 50 miles down here just to meet you, and everybody I met along the way assured me that you have the reputation of being the most generous man in New York."

Rockefeller thought this over for a minute, then asked quietly: "Are you going back by the same route?"

The panhandler answered: "Probably."

"Aha," said John D., "in that case you can do me a great favor. Deny the rumor."

There is a rumor afoot in the land that I am the regulator from hell. The rumor is not true. I am not from hell — I am from Texas. There may be superficial similarities between the two — some people say that they share the same climate — but one thing that distinguishes the people in Texas is that they are not resigned to their fate. To a Texan, problem conditions are hurdles to overcome, not eternal damnation.

To overcome problems, you must first face up to them. Facing up to problems is the unofficial motto of the Office of the Comptroller of the Currency.

As the agency responsible for supervising the nation's 4,200 national banks, the OCC is vitally interested in maintaining a safe and sound banking system to serve the long-term credit needs of the American public. We have to look at problems clearly and objectively. To do that, we have to consider what happened yesterday, we have to look beyond today, and we even have to look beyond tomorrow.

In several places across the country, developers, banks, and bank regulators alike are dealing with a major problem: real estate. This problem has been growing for some time. Two real estate experts recently pointed out in *Barron's*:

> As we begin the 1990s, Wall Street and the national press have concluded that the losses reported by New England's largest banks — the latest in a string of bad news about real estate investment — mean that the property-market boom of the 1980s is over, and that commercial property is in for a rough time in the new decade. There is no doubt that the real estate market is weak today. However, investors in 1990 should not be surprised at the bad news because, but for a few well-publicized exceptions, the country's real estate market has been depressed for years.

They went on to say that

> [i]nformation available to the investing public shows there were no sudden shocks to real estate in 1989. Rather, weakness in the commercial real estate market was evident through the late Eighties. Statistics indicate that the supply of office space, the largest component of the non-residential real estate market, grew faster than demand through the decade.

You, of all people, know of what the *Barron's* article speaks. To take one example, Coldwell Banker reports that at year-end 1987, 1988, and 1989, the vacancy rates for Stamford, Connecticut were 34 percent, 31 percent, and 32 percent, respectively. Clearly, in Stamford, and elsewhere, supply has outdistanced demand — and it has outdistanced demand for quite a while.

Three years ago, I began talking with several of you about this problem. The problem in real estate has

[illegible] banks. These problems can for the most part be overcome. Unfortunately, the climate — some might say the hellish climate — at present does not make that task any easier. As with all climates, this one is the result of several elements and the [illegible] among them.

What are these elements? Some banks that have real estate portfolio problems have found their capital in jeopardy. Some of the banks in that position have reacted by downsizing their portfolios. As perverse as it sounds, the easiest way to do that is to run off your best customers — because these customers are in the best position to find alternative sources of financing. But until these customers find other sources they are angry, and, as we have found, some are vocal in their anger.

Add to that the fact that securities analysts focus on problems — as they also focus on strengths. Just as the the analysts focused on bank problems with highly leveraged transactions, they have been and are focusing on bank problems with real estate. The targets of much of their focus are those institutions with the greatest aggregate exposure to real estate. That analytical focus is another element motivating bankers to shrink real estate portfolios.

Add to these facts the element of the unknown: even though we did not ask for it, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) granted federal bank supervisors the authority to impose heavy fines on banks, bank officers, and bank directors. We did not ask for that authority. We have yet to impose a penalty under these new provisions, and even if we did, the due process protections we have today would apply. But the players — bank boards of directors and managements — know that these penalties are now in the rule book. This knowledge is particularly disconcerting to directors, especially those directors facing our regulatory enforcement proceedings for the first time.

The unknown can be frightening and intimidating. I know. I used to represent bankers and directors who were in unknown situations. Add to that the shareholder suits against the managements of banks that are reporting losses.

With all those elements in motion, it is no wonder that bank managements are skittish.

There is one element in the climate, however, that should not be an unknown. That element is *what* the OCC does and *why* we do it. It is crucial that bankers, developers, home builders — everyone touched by the real estate problems — know what the OCC does and why.

In meetings such as this one, I have found it *personally* necessary to describe what we do and why we do it because, like John D. Rockefeller, we have found ourselves having to deal with unfounded rumor. So I would like to discuss with you this morning several widely broadcast misconceptions.

Given this sophisticated audience, the appropriate place to begin is with the concerns of borrowers who believe that they are being denied credit that they would have easily received in just the recent past. We sympathize with the plight of business people who have difficulty obtaining credit, or, in fact, may be unable to obtain credit at all, through no fault of their own. However, attempts to blame the OCC, or other bank regulators, for their condition are unwarranted. Critics who are linking the difficulties of some borrowers to a supposed crackdown on lending by the OCC are promoting incorrect views of what we do, how we do it, and why.

These arguments assume that the OCC is telling banks to whom they should or should not lend. Nothing could be farther from the truth. We do not make individual credit decisions. That is what bankers are paid to do. We *have not* told bankers: "Do not make loans." We have reminded them to *take care* in making loans. We recognize that our attention to particular categories of loans, or to individual loans, has inevitably resulted in stricter loan underwriting standards. But there is an important difference between shutting off all credit, or all credit of a specific type, and continuing to make the good loans to creditworthy borrowers. It is the banker's job to find the good loans and to make them. It is the banker's job to be able to justify the loan, not just, and not even first, to the regulators, but to the banker's own board of directors.

We have not repealed the basic rules of banking, including the practice of bankers working with customers during economic declines. That means working with customers to restructure loans, if necessary. When OCC examiners classify a loan, they do not intend for the institution simply to walk away from the loan and the borrower. Rather, the banker would be expected to analyze the credit and the borrower and restructure the credit where appropriate. If a loan becomes troubled, the focus of the banker's attention should be how to lose the least amount of money on the loan. Minimizing or eliminating loss may best be achieved by continuing to work with the borrower. That process has been the case historically. It is good banking.

When we find problems in one sector, such as real estate, we do not intend for an institution to paint all of its customers with one brush, to assume that there will

be problems in other sectors, too. We are not telling bankers to cut off credit from a good customer.

And we do *not*, as some of our critics have charged, set monetary or any other type of economic policy. That is not our job.

What is our job? Our job of bank supervision includes three important tasks. We make sure that banks adopt and adhere to sound credit practices. We make sure that their books accurately reflect the value of their assets and liabilities. And we make sure that national banks establish management systems capable of tracking bank activities and reasonably anticipating and adjusting to changing market conditions. We expect bankers to have mechanisms in place to conduct their own asset quality reviews to search for faults. Ideally, we should then only have to check to see that the mechanisms exist and that they are performing as intended.

In the less than ideal world in which we live, we often find faults — in asset quality, in managerial controls, in management — that bankers have not recognized, for whatever reason. We do what it takes to make bankers recognize these weaknesses. That means that we encourage, coach, coax, caution, and, if necessary, compel national bankers to focus on the quality of their investments and to improve that quality if they need to do so.

In a nutshell, that is bank supervision. Its goal is to make sure that bankers recognize reality. Its goal is to make sure that a banker has an understanding of his or her financial institution's condition that is true and reasonable. Its goal is also to make sure that bankers make managerial decisions that reflect this true and reasonable understanding.

It is not our job to make sure that each and every bank remains in business. It never was our job to do so. Banks, being private enterprises, not public utilities, are in business to make money. Banks that do not make money over time go out of business. Another misconception that is now floating around the banking community is that we have a computer model that our examination staff purportedly uses to determine credit quality in individual banks through some sort of simulation. The important point here is that we do use a model to identify, and to prioritize for our review, those banks that may have the most exposure to real estate. But our examiners review loans on an *individual basis* by taking an in-depth look at the information available in the bank — not through a computer model. All the computer model does is tell us where we need to send troops.

Similarly, the view held by some that the so-called "performing/nonperforming" loan is a new concept is a myth. It is not a new concept; it has been in our call report instructions for years. Further, the mythology states that loans that are good, that are being repaid under the terms of the credit agreement, are being criticized by bank examiners in spite of reality. The loan may be performing, but in criticizing it, the examiner is *recognizing* reality, not denying it.

Look at an example of the type of loan that might be placed in nonaccrual status. A developer of an income-producing property has been able to make interest payments on the loan to keep it current — but the developer has been doing so only by obtaining the funds from a credit source, perhaps even a loan at the same bank that underwrote the construction loan. We have to look at the fundamentals, as we would expect the bank to do. Is the project leasing up as expected? Are rents where they were projected? If the answers to these questions, and others like them, are negative, an examiner is reasonable in questioning the quality of an asset, even if it is performing, because the project itself is not capable at this point of producing enough cash flow to cover principal and interest.

To understand why an examiner questions the quality of an asset, keep in mind that when a local or regional economy is constantly on the rise, we do not have the same concern because, for the most part, cash flow from the projects is generally at or better than projections, and debt service capacity is most often not a problem.

The related topic of guarantors has also been under discussion. Why do we look at guarantors so carefully? When a bank makes a construction real estate loan, the primary sources of repayment are the sale of the property or a permanent refinancing. But if the primary sources of repayment have weakened, the bank often looks to a guarantor who may guarantee all or only a part of the debt. Prudent banking requires that the bank have all the necessary information to determine the ability of that guarantor to make payments and perform on that loan. This has been the case for years and it should come as no surprise to any banker that examiners will ask for and review information on guarantors.

I want to stress one point again. We review each loan separately and on its own merits. We judge the quality of that loan — and nothing but the quality of that loan.

As part of the process of overall supervision, however, we also monitor economic trends that might provide some indication of emerging credit problems. When necessary, we conduct special examinations of credit categories that our routine monitoring leads us to be-

[illegible] for [illegible] activity. The recent real estate [illegible] — which have been associated with substantial additions to loan loss reserves by a number of large banks — have given rise to speculation that the OCC is tightening supervisory standards in an attempt to discourage additional real estate lending.

That is simply not the case. OCC examiners are applying the same rules to their credit reviews that they have applied in the past.

If our rules have not changed, what has? The economic environment. The markets. The economic environment in which many banks and their customers do business has cooled or slowed over time. The deterioration, in turn, directly influences overall credit quality and the demand for credit.

We assume that prudent bankers will exercise caution in financing projects that appear to exceed the capacity of a weakening economy to absorb, even when the borrowers have good credit histories and the projects might be considered attractive lending opportunities in a more favorable economic environment. We assume that prudent bankers will also recognize that deteriorating economic conditions can erode the value of assets already on the bank's books, thereby reducing the bank's capacity to extend new credit. Indeed, the OCC's supervisory process is designed to reinforce sound decision-making by bank managers.

Criticism of loans by the OCC is not the *cause* of credit contraction. Instead, it is an *effect* — an effect of — and a response to — deteriorating conditions. Criticism of loans by the OCC is the recognition by bank regulators of changes in the environment that call into question the quality of loans *already* on a bank's books.

A softening economy may also make a bank less willing to lend to all customers. Further, as we all know, commercial real estate lending grew tremendously at banks in the 1980s — the growth rate in New England more than tripled. Unfortunately, the infrastructure the banks needed to support these lending activities did not always grow accordingly. As a result, bankers now have to deal with nonaccruals and other troubled loans that take up a lot of time and manpower. So bankers cannot spend as much time developing new business.

Obviously, the level of real estate concentration in a bank's portfolio is a factor in determining the severity of these problems.

The message we hear repeatedly is that conditions would right themselves if we would just — to use the popular expression — "lighten up." Everything I have said this morning argues against that. It would not be in the interest of the banking system or the general public, including developers, for the OCC to ignore changes in a bank's condition that materially affect the bank's safety and soundness. Although economic conditions can place burdens on banks and their customers, it would be a mistake to respond by looking the other way when we uncover problem credits, unsound credit practices, or overstated estimates of capital adequacy.

We do not want to make the situation harder than it needs to be, but we cannot meet our responsibility to the public by closing our eyes and hoping that problems will go away. It is true that the economic environment in which our standards are applied has changed. For that reason, we give credits a closer look than we would have under more fortunate circumstances. It is a fact that a soft real estate market or a weak local economy offers fewer opportunities for sound bank loans. But bank supervisors cannot alter that fact.

As a bank supervisor, the OCC operates under the principle that, in the long run, economic growth must rest on a firm foundation: a safe and sound financial system, in general, and a safe and sound national banking system, in particular. We put this principle into practice through strong and appropriate banking supervision.

Our job is like that of a smoke detector: to be constantly on guard for the signs of trouble and to sound a warning if those signs appear. Needless to say, when the smoke detector goes off, you do not blame the alarm for the fire. In fact, after the flames are extinguished, you probably are thankful someone came up with the idea for the warning device.

All of us — bank supervisors, bank examiners, bankers, developers — have a community of interest in preserving a firm foundation on which to build future growth. Preserving that foundation is why the OCC does what it does. If you hear otherwise, it is only a rumor.

Statement of Robert L. Clarke before the Senate Committee on Banking, Housing and Urban Affairs, on the availability of bank credit, Washington, D.C., June 21, 1990

Mr. Chairman and members of the committee, I am here to respond to concerns that you and others have raised about the availability of bank credit. The banking system is the foundation upon which a strong economy is built. Banking supports economic growth by funding business activity. In the long run, business expansion requires a safe and sound banking system. As the agency responsible for supervising national banks, the Office of the Comptroller of the Currency (OCC) is vitally interested in maintaining a safe and sound banking system that serves the credit needs of the American public.

Like the committee, the OCC has heard concerns voiced by borrowers — including real estate developers and persons who run small businesses — who are having difficulty obtaining credit for projects and other activities that they consider sound and that they believe would have received credit in the past. We have also heard some bankers assert that the OCC has tightened the standards used to examine lending practices; has unreasonably declared loans to be nonperforming and required banks to increase reserves for loan losses; and has forced banks to cut back on lending, even to healthy businesses.

I am here today to respond to these concerns by describing for you the OCC's loan review policies and recent actions, as well as the possible effect of these policies and actions on the availability of credit. We believe that the stories that link the difficulties of some borrowers in obtaining credit to a supposed crackdown on lending by the OCC are based on an inaccurate view of how the OCC supervises national banks and the effect of our examinations on the willingness of banks to make sound loans.

Before discussing OCC policies and actions, it is important to clarify exactly what the problem is. There have been numerous reports of reductions in the availability of credit. But, the limited data that has been reported by banks, periodic and special studies by the Federal Reserve System, and private surveys has indicated that, while credit has contracted somewhat in some localities, to date, the effect is not as severe as it is often portrayed. The reduction in credit appears to consist primarily of:

(1) A decline of credit extended for activities in geographic areas where demand for that activity is declining. For example, there appears to be both a decline in credit availability and credit demand for real estate construction loans in New England.

(2) An increase in collateral and guarantee requirements for loans that are particularly sensitive to changes in economic conditions, and

(3) A decline in the availability of credit from certain banks that must focus on working out the identified problems that currently exist in those banks' loan portfolios.

Such trends can be a cause for concern, but they need to be put in perspective. Bankers must assess the strength of the local economy and assess the ability of potential borrowers to repay loans when making initial credit decisions and in monitoring and managing credits after they are made. It is appropriate and not surprising that loans that once looked attractive are now receiving closer scrutiny, for example, in areas where vacancy rates in rental properties are rising and retail sales and employment growth rates are declining.

A critical part of the OCC's mission is to ensure that national banks follow sensible credit standards when they make loans so that the banks remain safe and sound. Clearly, we must be reasonable in applying our examination policies to work with banks as they address their problems. Economic conditions can place burdens on banks and their customers which bank supervisors must recognize. However, the recent experience of the savings and loan industry is only the most recent reminder that, no matter how good our intentions, it is not in the public interest to ignore changes in banks' conditions. We cannot respond by looking the other way when we uncover problem credits, unsound credit practices, or overstated estimates of capital adequacy. If supervisors ignore problems, then positive actions to solve those problems won't be taken — the situation will continue to deteriorate. Moreover, the importance of uninsured creditors and stockholders having accurate information about the condition of the bank is often overlooked. If the markets become unsure of the quality of bank portfolios, then investors will require substantial risk premiums, making it more expensive for all banks to raise capital.

At the same time, we recognize that being overly stringent would have harmful effects. We do not want bankers to make changes in their credit decisions based

upon fear of unwarranted criticism by bank regulators. Commercial lending is a cornerstone of banking and we continue to urge bankers to make sound loans — including real estate loans — to qualified borrowers.

The OCC, working with officials from the Federal Reserve System and the Federal Deposit Insurance Corporation, has been taking constructive steps to explain our concerns about loan quality and to deal with possible overreaction to market conditions and regulatory scrutiny. Most notably, on May 10, Federal Reserve Board Chairman Alan Greenspan, FDIC Chairman L. William Seidman, and I met with officials of the American Bankers Association (ABA) to allay fears among bankers that regulators would criticize prudent bank lending. In this meeting, we stressed that recent reviews of real estate lending at major state and national banks in New England were cooperative processes that involved examiners from all three federal bank regulatory agencies. These reviews uncovered problems that resulted in increases in criticized loans, provisions for loan loss reserves, and more loans being placed in nonaccrual status. These actions were appropriate and were warranted by the economic changes in the region. However, they were not meant to encourage banks to pull back from lending to creditworthy borrowers. All of us expressed our belief that it is appropriate for banks to continue lending — that qualified borrowers exist and that they represent important business opportunities.

The Economic Environment

The OCC monitors the economic environment for indications of changes that may lead to supervisory problems and we encourage banks to do the same. In fact, the recent real estate examinations are only the latest in a series of steps that the OCC has taken to evaluate the steadily growing real estate loan portfolios of national banks. For example, in 1987, because of our analysis of softening real estate markets and an increased national bank participation in real estate lending, we began to review the real estate lending practices at many banks. In 1988, OCC examiners in the Southeastern District examined the real estate lending practices at the regional banks in that district which had the largest exposure to real estate. They subsequently met with Chief Executive Officers (CEOs) and members of the boards of directors of these banks to discuss the softening real estate market and the need for prudent real estate lending standards. We emphasized the need for improved standards and controls and the potential for losses if current underwriting and control weaknesses were left uncorrected.

To communicate these concerns more widely, I had an advisory letter sent later in 1988 to all CEOs of national banks, warning them about the potential risks from excessive concentration in real estate lending. The message I delivered was that real estate lending itself does not entail undue risk. However, if proper underwriting standards are not employed, there exists a potential for a lot of risk.

In 1989, softening regional economies, coupled with indications of overbuilding in many cities, led to increased concern by regulators about the quality of real estate loans.

Although public attention has focussed primarily on weakening real estate markets, particularly in New England, broader indicators of economic activity have also shown some signs of weakness in several regions.

- After increasing an average of 3.2 percent annually for the preceding six years, *employment* in New England declined slightly in 1989. Employment growth fell below one percent in the Middle Atlantic region as well, declined more modestly in the South and Midwest, and remained relatively firm in the West.

- *Retail sales*, adjusted for inflation, increased by only 0.6 percent nationwide in 1989, well below the 4.8 percent rate of the preceding six years. The Middle Atlantic states suffered a decline in retail sales, as did several southern and midwestern states.

- A major real estate analysis firm[1] has estimated that the average *office vacancy rate* for major cities on the eastern seaboard from Boston to Washington, D.C. has increased from 8.1 percent at the beginning of 1984 to 14.3 percent at the end of 1989. In addition, construction of new office space continues to exceed the rate of absorption, indicating that the vacancy rate may continue and that office rents, adjusted for inflation, may decline. While these trends do not necessarily imply declining rental rates or longer lease-up times, they can be an indicator of potential problems in the real estate sector.

- Office vacancy rates in major cities in other regions of the country are also high, averaging 24.4 percent in the South, 19.2 percent in the West, and 16.5 percent in the Midwest at year-end 1989. Furthermore, overcapacity is a concern in other types of commercial real estate, such as shopping malls.

[1]Source: Coldwell Banker/Torto Wheaton Services

These trends are not projections made by regulators; they are economic facts that lenders must recognize. Each of these trends flags potential credit concerns. A prudent bank will exercise caution in financing projects that do not appear to make economic sense under current conditions. Even when the borrowers have good credit histories and the projects might be considered attractive lending opportunities in a different economic environment, they may not make sense in light of the current economic conditions in that particular market. A prudent bank will also recognize that deteriorating economic conditions can erode the value of assets already on its books, thereby reducing the bank's capacity to extend new credit. Even in economies which are fundamentally sound, overbuilding of real estate will generally result in a softness in real estate values until supply and demand are brought into better alignment.

OCC Supervision

It is important, given the recent public attention to our examinations, to understand the OCC's role in reviewing a bank's loan portfolio. The OCC has not changed its supervisory policies. However, in many cases the environment in which bank examinations are being conducted has changed. The supervisory process is designed to encourage and reinforce sound decision-making by bank managers. Our job as bank supervisors includes three important tasks. One, we ensure that banks adopt and adhere to sound credit practices. Two, we ensure that their books accurately reflect the value of their assets and liabilities. And, three, we ensure that national banks establish management systems that are capable of tracking bank activities and can reasonably anticipate and adjust to changing market conditions.

As part of this process, we expect bankers to have mechanisms in place to conduct their own asset quality reviews. Ideally, an OCC examiner should then only have to check to see that the mechanisms exist and that they are performing as intended. But in the less than ideal world in which we live, we often find faults that bankers have not recognized. We do what it takes to make bankers recognize them.

We work to ensure that banks accurately report the condition of their portfolio and maintain reserves that are adequate to protect against anticipated losses. This does not mean that we are not also willing to cooperate with the bank to find methods that, while not threatening safety and soundness, enable them to work out their problems. We do not insist that banks foreclose on property nor do we discourage banks from restructuring loans to find acceptable repayment methods. In addition, if loan quality problems result in a bank's having inadequate capital, we work with the bank to help it develop and follow a credible capital restoration plan that will get it back to health.

However, supervisors must be willing to act to close banks that cannot survive in a competitive market. Like other businesses, some banks fail. Failures are not necessarily a reflection of the quality of supervision that banks receive. Indeed, if bank supervisors guaranteed that even the poorest management was able to succeed, the banking system would become very inefficient. What we must do is allow banks to fail, but in a manner that minimizes the cost to society and to the insurance fund.

Clearly, the supervisory process is complex and requires lots of judgment. Not surprisingly, there has been a great deal of confusion and misinformation about the purpose of bank supervision, the methods we employ to determine the need for an examination, the examination process, and the criteria we employ in assessing the quality of a loan portfolio. I would like to describe for the committee how we go about our examinations.

The OCC strives to assure that a bank's management has an understanding of its financial institution's condition that is true and reasonable and that management's decisions reflect this true and reasonable understanding. Bank management must be able to support its credit decisions to its board of directors and its shareholders. So we encourage, coax, caution, and, when necessary, compel national bankers to focus on the quality of their investments and, if necessary, improve them.

Determining the Need for an Examination

One of the supervisory techniques we use is to conduct targeted examinations of credit categories that our routine monitoring of economic trends leads us to believe call for special scrutiny. A targeted examination may reflect supervisory concern about deterioration in the credit quality of a particular type of loan. But a targeted examination does not necessarily reflect that concern. It may be triggered by excessively large concentrations of credit in a single category or unusually rapid growth in one portion of a bank's portfolio, even if there were no signs of weakness in loan performance or credit quality. It indicates only that the OCC wishes to ensure that banks apply the same sound credit standards in the targeted category that we expect them to apply to all other loans.

We have conducted several kinds of targeted examinations in recent years: on loans to lesser developed countries; on loans financing highly leveraged trans-

[illegible] of real estate lending in several regions of the country. Contrary to some reports, we have not conducted targeted examinations of small business loans, nor are we currently making them the focus of any special supervisory review.

The Examination Process

In smaller banks an examination team — an examiner in charge and a small staff — judges the quality of the selected loans. If a bank appears to have problems that are so severe as to bring its solvency into question, the loans are then reviewed by other examiners.

In larger banking companies — where there may be several subsidiaries and more than one supervisory agency involved in the examination — the procedure becomes more elaborate and all the banking regulators work together. We will place an examiner in charge of the overall effort, and each of the subsidiaries under review will also be assigned an examiner to lead that work. All of the loans under review are discussed by the examiners with bank management and individual loan officers. Then, the examiner in charge of that subsidiary reviews the work and, if necessary, discusses it with other examiners-in-charge. The examiner-in-charge at the entire company will review the work on the most significant areas and loans. If the examiner-in-charge considers it necessary, the loans become the subject of further discussion among the examiners and with bank management. During this entire process, bank management has the opportunity to discuss specific loans with the examiners. Indeed, if the banker believes that the loan has been improperly classified, it is appropriate to raise questions at all levels of the review process, and I have encouraged bankers to do so.

During this review process, the examiners work with bank managers to ensure that the three goals I mentioned earlier are met: the bank has adopted and adheres to sound credit practices, the bank's financial statements accurately reflect the value of its assets and liabilities, and the bank has established management systems capable of tracking bank activities and reasonably anticipating and adjusting to changing market conditions.

Assessing the Quality of a Loan Portfolio

As you know, recent real estate examinations have been associated with substantial additions to loan loss reserves by a number of large banks. These actions have led to concerns about the methods used by OCC examiners to determine the adequacy of a bank's loan loss reserves. In the examination process, we evaluate these reserves based upon a review of individual loans. Our evaluations are not based upon the general application of aggregate economic assumptions to the loan portfolio.

When OCC examiners review a loan for an income-producing project, they assess whether the projected cash flows from the project and from other sources of payment are sufficient to meet required payments. This determination relies largely upon the bank's own estimate of future cash flows. Obviously, to the extent that the current condition of the project is inconsistent with the bank's recorded estimates, adjustments must be made. But, for the most part, we do not impose our view of future economic conditions in projecting potential losses. Rather, we strive to reflect the reality of current conditions. To the extent that we look at market forecasting data, we use the same data and data services that the banks themselves use. For example, if a particular project is leased significantly below expected levels and office occupancy rates have fallen in the market where the project is located, then the estimated projected cash flows must be correspondingly lower. In doing this cash flow projection we typically use the bank's own recorded forecast of the ultimate occupancy rate; but, in doing so, we recognize that it will take longer for the project to be leased, and we require the bank's valuation to reflect that reality.

If problems exist in a bank's lending portfolio, prudent reporting requires some recognition of the potential loss. This is the purpose behind reserves. In the vast majority of cases in which reserves are required, the loans are not performing as expected. In some cases, the payments may be current, but in criticizing the loan the examiner is recognizing the reality that the resources are no longer there to continue to make payments. Consider an example in which a developer has received a loan to construct and lease a new office building. If the leasing levels are not sufficient to generate cash flow which will meet principal and interest payments on the loan, it is reasonable to expect an examiner to question the underlying quality of the asset. This is true even if the borrower has been able to make interest payments on the loan to keep it current — often investigation will show that the developer has been keeping the loan current only by borrowing the funds from another credit source, possibly even a loan at the same bank that underwrote the construction loan.

The related topic of guarantors has also been the subject of much discussion. When a bank makes a construction real estate loan, the usual sources of repayment are the sale of the property or a permanent refinancing. If the primary sources of repayment are not sufficient or are unavailable to meet the obligation, the

bank must look to other sources — often the developer or a guarantor — to service all or part of the debt. Prudent banking requires that a bank have all the necessary information to determine the ability of that developer or guarantor to make payments and service the loan. Consequently, it should come as no surprise to any banker that examiners will ask for and review information on guarantors. Increased emphasis on the capacity of a guarantor is simple recognition of the changing environment. In a strong economy, where the underlying project has sufficient cash flow to service the debt in accordance with its terms, the financial capacity of the guarantor is less important. However, even when the condition of the guarantor is less important, the bank should still have timely information on the guarantor available and would be criticized by an examiner if it is not.

Effects of OCC Policies

The OCC does not make individual credit decisions; we believe that such decisions must be made by bank managers. Similarly, the OCC does not want to be involved in any way in allocating credit to particular firms or industries. Our role is limited to ensuring that banks adopt and adhere to sound credit practices, that their books accurately reflect the value of their assets, and that they establish management systems capable of (among other things) reasonably anticipating and adjusting to changing market conditions. Classifying loans necessarily involves judgment and reasonable people may disagree. But it would be wrong to have the impression that it is this "gray area" of potential disagreement that is the central issue. There is no disagreement between bankers and examiners about the vast majority of loans that are being criticized and reserved against. They are simply not paying as the bank expected and, therefore, cannot be recorded as doing so.

Our purpose is to ensure that banks adhere to sensible credit standards that protect their safety and soundness, not to discourage banks from making loans. Prudent bankers have traditionally responded to softening economies or overbuilt markets by declining to finance projects that might have been creditworthy in different circumstances. Unfortunately, it also appears that some bankers have reduced their lending to creditworthy customers. While we do not believe that this problem is widespread, we are taking steps to encourage bankers not to overreact.

As our meeting with ABA officials demonstrates, we are actively engaged in communicating to bankers our concerns and intent. We are encouraging banks to make loans to creditworthy borrowers at the same time that we are urging them to recognize the problems in their existing portfolios. I believe that this message is being heard. While some banks may be pulling back from lending, others are entering the market because they see the opportunities available to them.

Conclusion

I would like to conclude by repeating this message: We haven't told bankers not to make loans and we haven't told them to cut off credit from good customers. We have reminded them to take care in making loans and, where necessary, we have required banks to recognize weaknesses in their portfolios and management systems. To carry out our responsibility to maintain a safe and sound banking system, we must take these actions; it is too critical to the nation's economic well-being to leave such matters to chance.

Statement of Robert L. Clarke before the House Committee on Banking, Finance and Urban Affairs, on the condition of national banks in Texas, Houston, Texas, June 22, 1990

Introduction

Mr. Chairman and members of the committee, you have invited me to appear today in Houston to discuss a variety of issues related to the current and prospective condition of national banks in Texas, and I am pleased to respond. As you know, Houston has been my home for many years and, although my responsibilities as Comptroller extend to our entire banking system, I have a special appreciation for the concerns that prompted these hearings.

To get right to the point, the Texas economy has begun to recover in the past year from the devastating effects of falling oil prices and overbuilt real estate markets. As the state's economic outlook has improved, the overall condition of national banks in Texas has begun to stabilize, after declining markedly over the preceding few years. In the first three months of this year, national banks in Texas were, in the aggregate, profitable and their combined ratio of equity capital to assets in-

[illegible] growth for the first time since 1985. Yet most still have a long way to go before they will be able to take full advantage of the lending opportunities offered by an expanding economy.

Many national banks in Texas remain severely burdened by nonperforming real estate loans that cut their earnings and deplete their equity capital. Even as the state's economy continues to recover, many of those banks — approximately 150 through 1992 — will fail.

My testimony today provides the details that underlie this perspective. I will discuss first our understanding of the condition of the Texas economy and the nature of consensus forecasts for its future growth. All in all, those indicators suggest an improving economic environment in the state. Next, I will describe the condition of national banks in Texas. Many of those banks, especially ones created out of earlier failures or assisted recapitalizations, have the resources to take advantage of good lending and related business opportunities in the state. Others, however, face asset quality problems and capital constraints that severely limit their ability to finance new loans and imperil, in some cases, their own prospects for recovery.

I will also address matters relating to the Resolution Trust Corporation (RTC). Because of its mission, it shares with us a major interest in the condition of the Texas economy and the Texas banking system. I will describe RTC asset sales strategies and explain why those policies, in and of themselves, are unlikely to significantly affect the condition of banks in the state or impair their ability to make new loans. I will also discuss the many ways in which national banks can safely and profitably participate in the disposition of assets by the RTC, as well as efforts underway at the RTC to facilitate the disposition of its assets.

The Texas Economy

I think we all would agree that general economic conditions in Texas will be an important force in shaping the fortunes of Texas banks. Fortunately, in Texas the worst times seem to be behind us: unemployment has been falling and personal income and spending for many consumer goods have been on the rise. The unemployment rate in Texas averaged 5.9 percent in 1989, down sharply from its recent high of 8.9 percent in 1986. Personal income grew three percent in 1989, following a more modest increase in 1988, and an actual decline of 1.5 percent in 1987. Retail spending stabilized in 1989, after falling sharply in 1988.

Further improvements in the state's economy appear likely over the next few years. Although at the Office of the Comptroller of the Currency we do not engage in formal economic forecasting, we do monitor predictions made by established analysts. We have observed that forecasts by prominent economists here in Texas, as well as in other parts of the country, suggest that growth in employment, personal income, and retail sales in Texas will outpace U.S. averages through 1992.

Real estate market conditions, both residential and commercial, are also expected to improve in the next couple of years, after stabilizing in 1989. Residential housing starts, for example, firmed in Texas in 1989, after dropping sharply in each of the preceding four years. Many analysts forecast an upward trend in housing starts over the next two years or so, although not to the levels seen in their halcyon days of the mid-1980s.

Commercial office vacancy rates in major Texas cities — Austin, Dallas, Houston, and San Antonio — remain among the highest in the nation, but those vacancy rates have declined in the past several years, after reaching record levels in 1987. Most analysts predict that vacancy rates in those cities will continue to drift down over the next two years, assisted by modest increases in office employment and a continued slowdown in the pace of nonresidential construction in the state. However, commercial vacancy rates in most major Texas cities are likely to remain above the national average through 1992.

Although recent and expected improvements in economic conditions, including real estate, portend new opportunities for Texas banks, we must not forget that full use of those opportunities must be tempered by sound banking judgment. The importance of using sound banking principles in all phases of the business cycle were documented in a study of national banks by the OCC released in 1988. To quote from its introduction:

> While poor economic conditions make it more difficult for a bank to steer a profitable course, the policies and procedures of a bank's management and board of directors have a greater influence on whether a bank will succeed or fail. In other words, poor management and other internal problems are the common denominator of failed and problem banks.
>
> Therefore, while growth in the Texas economy and improvements in the state's real estate markets will facilitate recovery among Texas banks, sound management is the critical factor influencing the condition of Texas banks and their ability to play a major role in financing the economic recovery here.

The Condition of National Banks in Texas

During the 1980s, the performance of national banks in Texas reflected the rapid swing in oil prices and the ups and downs in the Texas economy and Texas real estate markets. Texas banks reported relatively high earnings early in the decade, but banking income in the state drifted lower as oil prices began to drop and the economy stagnated. Then, in 1986, banking profits plunged as oil prices fell below $20 per barrel and overbuilt real estate markets weakened. National banks in Texas lost $874 million in 1986 and $2.1 billion in 1987. Losses remained high in 1988 — $2.0 billion — but dropped substantially last year to only $540 million.

The losses stemmed, in large part, from problem real estate credits, which grew precipitously beginning in 1986. Between the end of 1985 and the end of 1986, the sum of real estate loans 90 or more days past due, real estate loans placed on nonaccrual status, and other real estate owned (OREO) — principally repossessed property — more than doubled at national banks in Texas, from $1.6 billion to $3.3 billion, or 10.1 percent of real estate assets. Then in 1987, they more than doubled again, to $6.7 billion, or 20.0 percent of real estate assets. Problem real estate assets at national banks in Texas dropped over the next two years, to $5.5 billion in 1989, but remained equal to 22.2 percent of real estate assets, more than four times greater than the national average of 5.2 percent.

Persistent credit quality weaknesses have taken their inevitable toll on equity capital. Between December 31, 1985 and December 31, 1989, equity capital at national banks in Texas dropped by $3.8 billion, from $9.0 billion to $5.2 billion. As a percentage of assets, equity capital at national banks in Texas dropped from 6.2 percent in 1985, to 5.6 percent in 1986, to 4.6 percent in 1987, to 4.0 percent in 1988, and to 3.9 percent in 1989.

Bank failures in the state multiplied during those years, peaking in 1988 and 1989. In 1988, 72 national banks in Texas failed, including 31 national bank affiliates of a single large regional bank holding company. In 1989, 88 national banks in the state failed, 42 of which were affiliated with two regional bank holding companies that were closed that year.

Failures of national banks in Texas will continue at rates above the national average for at least the next two or three years. In the first five months of 1990, 40 national banks failed, and we expect from 70 to 75 failures for the year and 110 to 115 total in the following 24 months. Those failures will involve relatively small national banks, most of which have already been assigned our most severe composite supervisory rating. Failures in Texas will continue to reflect, in part, the structural unprofitability of some of the smaller banks in the state and underscore the need to achieve further consolidation by taking advantage of branching authority.

Despite the continuing high number of bank failures in Texas, there are signs that the most severe difficulties facing national banks there are in the past. While national banks in Texas still lost money in 1989, they lost less money than they had in any of the three previous years. Their losses of $540 million in 1989 were 73 percent below their losses in 1988. In the first three months of 1990, moreover, they returned to profitability — reporting aggregate net income of $122 million, their first quarterly profits since 1985.

In addition to the rise in aggregate net income, problem real estate assets at national banks in Texas dropped substantially, to $2.9 billion, in the first quarter of 1990, and the ratio of their problem real estate to their total real estate assets fell from 22.2 percent to 14.1 percent. That decline was due, in part, however, to the transfer of problem real estate to the Federal Deposit Insurance Corporation (FDIC). The vast majority of national banks in Texas — especially the smaller institutions — remain burdened by relatively high levels of past due and nonaccrual real estate loans and OREO. Even at 14.1 percent, the ratio of problem real estate assets to total real estate assets at national banks in Texas was 2.6 times the current national average of 5.4 percent, and was, for example, above the ratio for national banks in New England — 13.5 percent.

Equity capital ratios also improved in the first quarter of this year, after beginning to firm in 1989. The aggregate ratio of equity capital to assets at national banks in Texas jumped from 3.9 percent on December 31, 1989 to 5.4 percent on March 31, 1990, though that aggregate statistic implies more improvement than actually occurred. Much of that improvement was due to special circumstances. Specifically, two large national banks benefitted from substantial injections of new capital, and a third bank, with negative equity capital at the end of 1989, converted from a national to a state charter. Absent those special circumstances, the ratio of equity capital to assets at national banks in Texas rose modestly, helped by earnings of $122 million and a decline in total assets from $133 billion to $125 billion. Nevertheless, the ratio of equity capital to assets at national banks in Texas remained below the equity capital ratio for national banks in the U.S. as a whole — 5.4 percent in Texas compared to 6.0 percent nationwide.

The picture that emerges is one of divergent prospects for national banks in Texas. Many national banks —

Meanwhile, a number of banks created out of earlier failures or assisted recapitalizations — have the resources to take advantage of good lending and related business opportunities in the state. Other national banks continue to struggle due to high levels of problem assets that impair earnings, erode capital, and severely limit their ability to finance new loans.

Even among the healthier banks, however, an expanding economy does not imply that all loan applicants warrant approval of their applications. Bankers will still have to exercise traditional prudence when evaluating the creditworthiness of potential borrowers. The effects of widely heralded cutbacks in defense-related spending, for example, is one potential source of concern. The impact of sales of distressed real estate by the RTC is another.

Effects of the RTC Pricing Policy on Texas Banks

During the first few months of the organization of RTC, asset sales were slow. Properties located in Texas and in other distressed real estate markets could be priced at no less than 95 percent of their value, as established by appraisals. Because there were few buyers at those prices, there was clearly a need to reconsider the values that had been placed originally on assets held by the RTC and to get on with the business of asset disposition.

To quicken the pace of sales, the RTC board voted in May to give its sales staff greater freedom in setting prices for RTC properties that had been aggressively marketed, but had not attracted purchasers. RTC policy now permits asset managers to reduce the value to which the 95 percent limit may be applied. That base value can be reduced to 85 percent of the original appraised value in one step and to 80 percent of appraised value in one more step. No additional reductions in base value or selling price may be made until a new appraisal is secured.

That increased flexibility is subject to several safeguards, however. First, the base value may be reduced to 85 percent of the original appraisal only if the property has been aggressively marketed for six months — four months for single family homes. Second, once the base value of a piece of property has been changed, that property must be marketed at no less than 95 percent of that new base value for at least three months before any further reduction can be made. Third, the base value of a property cannot be reduced below 80 percent of the original appraisal without obtaining a new appraisal. Fourth, a monitoring system, with monthly reports at its core, has been put in place to ensure strict adherence to the new policy and its safeguards.

It is our hope that the RTC price strategy will quicken the pace of sales, thereby returning ownership of vast stores of property to the private sector. We believe it will do so without significantly altering the prices — market-clearing prices — at which similar properties would be sold by one private party to another.

RTC sales could depress prices below market-clearing levels only if willing buyers play a waiting game, refusing to bid on properties they want in the hope of acquiring them at a lower price later. Such a waiting game is fraught with risks, however, particularly the loss of the property to someone who is not willing to wait. Buyers could attempt to reduce the risks of waiting through collusion, but buyer collusion is unlikely to be successful.

This is not to say that the price of real estate in Texas will not fall in coming months far below their earlier appraised values. Indeed, our experience suggests that prices for properties that are being carried at artificially high book values will fall. Lower RTC sales prices will not be initiating price weaknesses, however; economic conditions have already done that. RTC activity only serves to bring those weaknesses to light.

The magnitude of any observed shortfall from original appraisals will depend on a variety of factors, including property type and location. The price of undeveloped land in Texas, where plentiful, could drop substantially. Observed declines in residential property prices should be smaller.

It is also unlikely that the RTC price strategy will, in and of itself, cause significant additional write-downs of loans held by banks and thrifts. If loans are properly collateralized and generating cash flow sufficient to cover current and future debt service, there are no grounds for a write-down. If cash flow is not sufficient to cover debt service and collateralized values do not reflect market realities, a write-down may be warranted. However, under those conditions, a write-down would also be warranted in the absence of RTC sales.

Bank Participation in RTC Asset Dispositions

When the RTC began operation last August, it needed a great deal of outside help in managing and disposing of assets. To that end, the RTC entered into what we termed to be "Interim Servicing Agreements" with banks. In connection with their acquisition of thrifts, those banks managed and disposed of RTC assets

The agreements were for 180 days and contained a clause permitting their extension for another 120 days

Now that the RTC is more actively involved in asset disposition, banks can expect different opportunities. These include lending funds to qualified buyers of RTC assets. They also include the acquisition of failed thrifts, in whole or in part. Finally, national banks can purchase assets from the RTC.

Among these opportunities, the one we can track with relative ease is the acquisition of thrifts. The data that we have indicate important activity. For example, between August 10 of last year and June 1 of this year, 29 Texas thrifts with $12 billion in deposits were closed. Of those, 25 were purchased: six by thrifts, three by state-chartered banks, and 16 by nationally chartered banks. In the remaining four cases, depositors were paid off.

Bank purchases of insolvent thrifts from the RTC are likely to pick up in the months ahead. Just last April, the RTC made it easier for banks to buy thrifts in RTC conservatorship. Under the old policy, banks had to make a relatively quick decision about which thrift assets to keep and which to leave for the RTC. There was little room for error, and potential purchasers had to exercise extreme caution when selecting among the assets of a failed institution. In April, the RTC decided to give purchasers more time to examine assets after they take over a thrift. If additional bad assets are found during that period, the RTC stands ready to buy them back from the acquiring bank.

I anticipate that the RTC will work toward increasing incentives for the purchase of the assets of failed thrifts. In purchase and assumption cases, the acquiring institution is very selective in identifying those assets it will purchase. We need to search for ways to encourage acquirors to purchase the less desirable assets of failed thrifts at an appropriate discount from their book values — a discount that recognizes the real economic risk to purchasers and ensures a fair return to the RTC.

We also need to tap the considerable experience bankers have in collecting troubled loans. In my office, we are evaluating prototype contracts pursuant to which national banks would work for the RTC, servicing and collecting real estate loans owned by the RTC. In a next step, we will be evaluating similar contracts dealing with the servicing of real estate

We do not, however, expect that banks will be alone in taking advantage of those opportunities. Indeed, the RTC has sought to establish increased competition for its asset-disposition business. In response to a requirement in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), the RTC board recently promulgated a regulation — 12 CFR 1606 — spelling out the minimum qualifications, ethical standards of conduct and restrictions on the use of confidential information for such independent contractors.

Additionally, as has been reported in the press, the RTC is in the final stages of developing asset sales structures that will expedite the sales of large blocks of assets at one time. These structures will specify, for example, the terms governing cash flow sharing between the RTC and the purchaser, the amount of equity purchasers must possess, and the terms governing the amount and sources of credit to be used by purchasers. Because of their size and complexity, all of the wrinkles have yet to be ironed out, and it may be some time before they are to the satisfaction of all who must pass upon them.

Imagination and innovation are touchstones of effective RTC sales, and I fully expect we will see more developments in the future that will lead to successful transactions. While the clean up has just begun, the mechanisms are in place that ensure it will proceed as expeditiously as possible and will allow the Texas economy to get past this difficult hurdle.

Summary

The Texas economy has begun to recover from the effects of falling oil prices and overbuilt real estate markets. In the last year, unemployment has dropped, personal income has grown, and retail spending has stabilized. All are expected to improve faster than national averages.

The economic recovery in Texas, however, is hardly complete. Many large metropolitan areas in the state still struggle with oversupply of real estate — both residential and commercial — and construction activity remains weak. Although housing starts have firmed and are expected to grow over the next few years, they remain a small fraction of the levels reached in the early 1980s. Commercial office vacancy rates have begun to decline in major metropolitan markets, but generally remain well above national averages

It is against this backdrop that national banks in Texas operate. In the past few years, most have suffered depressed earnings and an erosion of equity capital, weighed down by unusually high levels of past due and nonaccrual real estate loans. Many banks have failed and many others will fail in the years to come

Nevertheless, an improving Texas economy will, over time, yield a stronger Texas banking system. Although

[illegible] national banks in Texas continue to struggle with high levels of problem assets and depressed levels of equity capital, which limit their ability to finance new loans, others have the resources to take advantage of the improving prospects in the state. We have already observed that major indicators of loan quality and capital are on the upswing, and aggregate net income turned positive in the first quarter of this year for the first time since 1985. As net income continues to rise and capital positions improve, national banks in Texas will be increasingly capable of providing financing for sound business opportunities that the recovering economy will offer in the future.

Many of those opportunities will be related to the asset sales efforts of the RTC. As I have noted, the RTC is pursuing many options as it seeks to meet its objectives, and it is actively considering many more. All offer opportunities for banks. Indeed, many national banks have been involved right from the start in the management and disposition of assets for the RTC. National banks have also been, and will continue to be, active purchasers of troubled or insolvent thrifts. It is my expectation that as the RTC increases incentives for the purchase of failed thrifts, the volume of its sales to banks and other purchasers will rise.

Statement of Stephen R. Steinbrink, Deputy Comptroller for Multinational Banking, before the House Committee on Small Business, on the availability of bank credit to small businesses, Washington, D.C., April 25, 1990

Mr. Chairman and members of the committee, I am here to respond to questions that you have raised concerning the availability of bank credit to small businesses. As the agency responsible for supervising national banks, the Office of the Comptroller of the Currency (OCC) is vitally interested in maintaining a safe and sound banking system that serves the credit needs of the American public.

Like the committee, the OCC has heard concerns voiced by a number of borrowers — including some small businesses — who are having difficulty obtaining credit for projects which they consider sound and which they believe would have received credit in the past. We have read reports of a "credit crunch," which some observers attribute in part to the actions of bank regulators. We have been told that the OCC has tightened the standards used to examine lending practices, that we are forcing banks to cut back on lending, even to healthy small businesses, and that by doing so, we are contributing to an economic slowdown in some sections of the country.

We sympathize with the plight of the reputable small entrepreneur who, through no fault of his own, is unable to obtain credit. We believe, however, that the arguments linking the difficulties of some borrowers to a supposed crackdown on lending by the OCC are based on an incorrect view of how the OCC supervises national banks and the effect our supervision has on their credit decisions.

These arguments assume that the OCC is telling banks to whom they should or should not lend. That assumption, however, mischaracterizes the relationship between the OCC and the banks that we supervise. The OCC does not make individual credit decisions; we believe that such decisions are properly left to the discretion of bank managers. Similarly, the OCC scrupulously avoids allocating credit to particular firms or industries. Our role is limited to ensuring that banks adopt and adhere to sound credit practices, that their books accurately reflect the value of their assets, and that they establish management systems capable of (among other things) reasonably anticipating and adjusting to changing market conditions.

As part of its supervision, the OCC monitors economic trends that might provide some indication of emerging credit problems. When necessary, we conduct targeted examinations of credit categories which our routine monitoring leads us to believe merit special scrutiny. A targeted examination may reflect supervisory concern about deterioration in the credit quality of the targeted category, but this is not necessarily the case. Excessively large concentrations in a single category of credits or unusually rapid growth in one portion of a bank's portfolio could also provide justification for a targeted examination, even if there were no sign of weakness in loan performance or credit quality. By the same token, a targeted examination does *not* indicate that the OCC wishes to discourage banks from making loans in the targeted category. It indicates only that the OCC wishes to ensure that banks apply the same sound credit standards in the targeted category that we expect them to apply to all other loans.

The OCC has conducted several targeted examinations in recent years, focusing on loans to lesser developed countries, loans financing highly leveraged transactions, and, during the past six months, real estate lending in several regions of the country. The OCC has not conducted targeted examinations of small business loans, nor have we made them the focus of any special supervisory review.

The recent real estate examinations, which have been associated with substantial additions to loan loss reserves by a number of large banks, have given rise to speculation that the OCC is tightening supervisory standards in an attempt to discourage additional real estate lending. This is not the case. OCC examiners are applying the same standards to their credit reviews that they have in the past.

What has changed is the economic environment in which banks and their customers do business, and this directly influences overall credit quality. Public attention has focused primarily on weakening real estate markets, particularly in New England, but broader indicators of economic activity have also shown some signs of weakness in several regions.

- The average *office vacancy rate* for the eastern part of the country has increased from 8.1 percent at the beginning of 1984 to 14.3 percent at the end of 1989. A leading private economic forecasting firm, noting that the construction of new office space continues to exceed the rate of absorption, projects that the vacancy rate will continue and that office rents, adjusted for inflation, will decline by more than 30 percent during the next four years. Office vacancy rates in the Sunbelt are also high, averaging 24.4

percent in the West and 19.2 percent in the South at the end of 1989. Overcapacity is also a concern in other types of commercial real estate, such as shopping malls.

- After increasing an average of 3.2 percent annually for the preceding six years, *employment* in New England declined fractionally in 1989. Employment growth fell below one percent in the Middle Atlantic region as well, declined more modestly in the South and Midwest, and remained relatively firm in the West.

- *Retail sales*, adjusted for inflation, increased by only 0.6 percent nationwide in 1989, well below the 4.8 percent rate of the preceding six years. The Middle Atlantic states suffered a decline in retail sales, as did several Southern and Midwestern states.

Each of these trends flags potential credit concerns:

- High vacancy rates for commercial real estate indicate that commercial developers may have difficulty finding tenants and charging planned rental rates. This is likely to translate into lower rental income and profits, which reduces the developer's ability to repay a loan.

- High unemployment may affect the ability of homeowners to make mortgage payments, weakening the credit quality of mortgage portfolios and increasing foreclosure rates. When this is combined with falling property values, the bank can find itself insufficiently collateralized. High unemployment also reduces purchasing power for the products of local businesses.

- A softening economy reduces the anticipated demand for a small business's products, and makes it a less attractive credit risk. A weak economy may also make a bank less willing to "take a chance" on a small business that is just starting up.

A prudent bank will exercise caution in financing projects that appear to exceed the capacity of a weakening economy to absorb, even when the borrowers have good credit histories and the projects might be considered attractive lending opportunities in a more rapidly expanding economy. A prudent bank will also recognize that deteriorating economic conditions can erode the value of assets already on its books, thereby reducing the bank's capacity to extend new credit. The supervisory process is designed to reinforce sound decision-making by bank managers in this area. Additions to loan loss reserves reduce the bank's regulatory capital. This reduces the amount of assets which the bank is permitted to hold under risk-based capital standards, and also reduces the bank's lending limit. But criticism of loans by the OCC is not the cause of credit contraction; it is simply the recognition by bank regulators of changes in the environment that reduce the amount of credit that the bank can safely extend.

It would not be in the interests of the banking system or the general public for the OCC to ignore changes in a bank's condition that materially affect its safety and soundness. Although economic conditions can place burdens on banks and their customers which we, as regulators, would like to mitigate, it would be a mistake to respond by looking the other way when we uncover problem credits, unsound credit practices, or overstated estimates of capital adequacy.

I would like to close by emphasizing two points. First, the supervisory standards of the OCC have not changed; it is the economic environment in which those standards are applied that has changed. A soft real estate market or a weak local economy offers fewer opportunities for sound bank loans. Bank supervisors cannot alter that fact. Second, it is not the intent of the OCC to discourage banks from making loans, but only to ensure that they adhere to sensible credit standards that protect their safety and soundness.

Statement of Robert J. Herrmann, Senior Deputy Comptroller for Bank Supervision Policy, before the Subcommittee on Consumer and Regulatory Affairs, Senate Committee on Banking, Housing and Urban Affairs, on mortgage discrimination, Washington, D.C., May 16, 1990

I am here today on behalf of the Office of the Comptroller of the Currency (OCC) for this follow-up hearing on mortgage lending discrimination. My statement is a status report on our efforts to enforce national banks' compliance with fair lending laws and regulations, particularly those related to mortgage lending, with a focus on our current supervisory efforts and findings. I will also explain our data systems as well and how they augment the supervisory process and the initiatives that we have undertaken in cooperation with the other federal financial regulatory agencies through the Federal Financial Institutions Examination Council (FFIEC).

Introduction

We believe that the business of mortgage lending has changed radically over the last five years. A vast number of competitors in the financial services industry offer home mortgage loans with competitive terms and rates. The long-term dominance of thrifts in mortgage originations has eroded in recent years: in 1985, thrifts originated 44 percent of mortgages to purchase one-to-four family dwellings, banks originated 21 percent, and other financial servicers originated 35 percent. By 1989, the picture changed dramatically: originations by thrifts and other financial servicers decreased to 39 and 27 percent, respectively; commercial banks' share, on the other hand, increased to 35 percent. Commercial banks could not have increased their share of the mortgage market without having actively marketed their services to a broad customer base.

Compliance with all banking statutes, and particularly those related to preventing illegal discrimination, is an integral part of successful bank operations. As a result of our efforts, national banks' management personnel have become more sensitive to the need for systems to ensure compliance. Financial trade associations, including the American Bankers Association and the Bank Administration Institute, along with state banking associations, have responded to this renewed emphasis by enhancing their compliance related training programs.

The OCC has enhanced its training programs for examiners to ensure better understanding of the requirements of all consumer, fair lending, and community related laws. Examiners are required to undertake a computer based, self-study course on regulatory requirements and attend a two week consumer compliance school, a significant portion of which is devoted to fair lending issues and requirements. In addition two advanced consumer compliance seminars are conducted in Washington for experienced examiners who conduct compliance examinations and manage the compliance examination process. Issues related to fair lending and community reinvestment are discussed in detail during these sessions.

In previous testimony before this subcommittee, we described in detail our formal compliance program and the requirement that thorough and consistent compliance examinations be conducted in a statistically valid sample of national banks. Information gained from these examinations shows that national banks are implementing programs to improve their level of compliance. Virtually all national banks now have compliance officers and, since the inception of the compliance program, we have seen the percentage of national banks with compliance management committees increase from 24 percent in 1987 to over 36 percent. OCC staff participate in numerous educational seminars for bankers that focus on the elements that comprise a successful compliance management program.

We also cooperate with the Department of Housing and Urban Development (HUD) in their efforts to combat illegal discrimination in housing markets. For instance, the OCC's Special Assistant for Fair Lending is a speaker at HUD's fair housing/fair lending legal seminars for attorneys and officials of lending institutions and serves as an advisor on housing discrimination related studies.

Additionally, because of the pertinent provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) amending the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA), we, as supervisors of the national banking system, have increased pressure on bank managements to document their policies, procedures, and monitoring functions. This is particularly important because compliance with anti-discrimination laws and regulations is included in two assessment factors in the CRA regulation.

The OCC is committed to ensuring that national banks comply with all fair lending related legislation. We assert that illegal discrimination, particularly in mortgage lending, is very difficult to detect because it can occur at so many different stages in the process of securing

[illegible] customers can be affected by discriminatory behavior: (1) during preliminary discussions with real estate agents, brokers, and others about where to seek financing, (2) when inquiring about mortgage loan terms with a bank's personnel, (3) at the time of filing an application with a bank, or (4) during the bank's credit decision process.

Activities that occur prior to a bank's receiving a written application are especially difficult to monitor because there is no tangible evidence on which to rely. Nevertheless, the OCC's responsibility is to ensure that national banks: 1) comply with the requirements of fair lending laws, and 2) rectify possible patterns or practices that indicate illegal discrimination.

Supervisory Responsibilities and Efforts

The OCC carries out its responsibility to enforce fair lending laws via four primary avenues. They include:

- Conducting thorough compliance examinations, including fair lending procedures, in institutions with over $1 billion in assets biannually and in a statistically valid sample of the remaining population of national banks, annually;

- Conducting targeted examinations in national banks not included in the sample if, for instance, the supervising examiner has identified a compliance related risk such as unsatisfactory operating procedures;

- Analyzing every consumer complaint which alleges discrimination individually and taking appropriate follow-up action; and

- Using information from our other supervisory information systems to facilitate fair lending supervision and to encourage service of community credit needs consistent with the objectives of CRA. These systems include HMDA data and Fair Housing Home Loan Data System (FHHLDS) analyses.

Since implementation of the compliance program in April 1987 through the end of 1989, the OCC has conducted over 1,960 compliance examinations. During the same time period, an additional 1,850 targeted consumer examinations occurred as part of our overall supervisory efforts beyond the compliance program sample. Of the almost 4,000 examinations we have conducted during the last three years, 140 violations of the illegal discrimination provisions of the Equal Credit Opportunity Act, and its implementing Regulation B, [illegible].

When banks have been cited for violating the illegal discrimination provisions of Regulation B, the OCC takes prompt action to require institutions to: 1) correct the practice which led to the violation, 2) implement systems to ensure that such violations will not recur, and 3) correct the effects of the violations discovered. Banks found to be in violation are required to conduct file searches for the previous 24 month period (six month period for violations involving adverse action notices) and initiate corrective action for each consumer who was adversely affected by the practice.

The OCC also integrates information from the consumer complaint process into supervision of bank compliance with law. The supervisory offices semiannually receive bank profile reports on all banks that have been the subject of consumer complaints. The information is evaluated and, as appropriate, incorporated into the individual banks' strategies for supervision. Additionally, supervisory offices and individual examiners now have on-line access to the OCC's Consumer Complaint Information System (CCIS). Examiners analyze reports from the system and incorporate the results in the supervision of the banks.

Despite the usefulness of our automated complaint information system, the OCC continues to receive few fair lending complaints. During the three years ending March 31, 1990, the OCC received over 43,000 written complaints. Consumer complaints alleging illegal discrimination or redlining totaled 684, about 1.6 percent of all those received. Of these, over 400 of the complaints alleged discrimination involving credit cards. Complaints alleging racial discrimination in real estate lending totaled 37 for the three year period — less than 0.1 percent of the total.

Our complaint resolution process requires that we review information submitted by the consumer and that we request the bank to provide us with its response to the allegations. Once we have reviewed all the facts pertinent to the individual complaint, we determine whether further follow up, for instance an on-site investigation by an examiner, is necessary. Of the 37 real estate related complaints alleging racial discrimination received over the last three years and reviewed according to these procedures, we found no violations of fair lending laws.

As a result of our investigations of all other types of credit related consumer complaints, six banks were cited for eight violations of Regulation B. Two of these violations related to illegal discrimination. One violation was cited because of discrimination on the basis of marital status and the other was cited because of discrimination on the basis of receipt of public assistance income. In both cases, our investigation re-

vealed that these were isolated errors by inexperienced loan processors and not part of a pattern or practice of illegal activity in those particular institutions. In accordance with the OCC's enforcement policy, both complainants were offered the opportunity to reapply and be reconsidered under nondiscriminatory standards.

Consumer complaints are processed by complaint specialists in each district office who receive training in all consumer protection and fair lending laws. In addition to the OCC's regular training for these laws, the most recent consumer complaint seminar, held in December 1989, also included presentations by representatives of the Department of Housing and Urban Development on the Fair Housing Act and the Federal Trade Commission on illegal discriminatory lending practices.

The complaint specialists operate with written procedures that include guidelines for processing complaints alleging illegal discrimination. Our examiners also have written guidelines for investigating complaints of illegal discrimination. We believe our complaint processing procedures are an effective tool in identifying incidents of illegal discrimination.

The OCC conducts thorough fair lending investigations when a consumer complaint alleging illegal discrimination appears to warrant such a commitment of resources. For instance, we recently received complaints about alleged discriminatory small business lending practices in two cities — one in our Midwestern District, the other in the Southwestern District. We conducted on-site investigations in both cases. Our examiners expanded the scope of their investigation beyond evaluating the treatment of the individuals involved to include an evaluation of the fair lending practices of all major national banks in each city. Our investigations revealed no illegal discriminatory practices in any of the institutions investigated.

One of the questions included in the chairman's April 19, 1990, invitation letter deals with the "effects test" issue. Policies or practices legitimately designed to evaluate risk or to minimize loan processing costs may have adverse effects on groups of people, perhaps on bases prohibited by law. Perhaps the greatest challenge to our examiners in their assessment of national banks' compliance with fair lending laws is: (1) to identify which of the myriad credit standards in use today may have an adverse impact on groups of people, and should adverse effects be identified, and (2) to decide whether the business value of these practices could justify their use despite possible disparate impact on minorities, women, or others.

Our current approach is to evaluate and correct problems on an individual case-by-case basis while educating and sensitizing our examiners and the banks to potentially discriminatory practices. Indirect or inadvertent discrimination is often so subtle that the most effective tool against it in the long run is to increase the sensitivity of lenders and consumers alike to those practices which might lead to it.

Supervisory Systems

The OCC uses information from two other systems to facilitate fair lending supervision. These systems include the HMDA data and the Fair Housing Home Loan Data System (FHHLDS).

The changes in HMDA effected by FIRREA will provide information on the disposition of applications for residential real estate loans and information about the characteristics (race or national origin, gender, and income) of applicants and borrowers. The changes also require disclosure of information about the type of purchaser of loans sold by covered institutions, and allow optional reporting of the reasons for loan denials. Financial institutions began collecting the information to be reported on January 1, 1990, and will be reporting under the new requirements no later than March 1991.

The HMDA data is useful in monitoring CRA performance, and, with the enhancements, will have some value in monitoring compliance with the Fair Housing and Equal Credit Opportunity acts. However, even with the additional reporting requirements of the HMDA amendments, an analysis of strictly HMDA data, in and of itself, will not provide sufficient information to confirm that an institution is illegally discriminating in mortgage lending.

The HMDA data and FHHLDS analyses facilitate fair lending supervision only for those banks subject to reporting requirements of the two regulations. Of the 4,350 national banks, only 2,198 were required to report housing finance activity covered by HMDA in 1989. Additionally, few banks have sufficient mortgage loan activity that might subject them to reporting requirements of the FHHLDS. In 1989, we initiated 45 analyses covering national banks with the largest home mortgage portfolios. None were found to have illegal discriminatory practices against mortgage applicants.

The FHHLDS was developed as part of the settlement reached with the National Urban League which had filed a lawsuit in 1976 against the federal financial regulatory agencies for their alleged failure to enforce the Fair Housing Act. OCC voluntarily entered into a Settlement Agreement that required the establishment of such a data collection and analysis system. The

Settlement Agreement required the retention of the system for a minimum of three years from implementation. The OCC's FHHLDS regulation became effective on January 1, 1980. We have continued to use the system since its inception, despite expiration of the agreement.

The FHHLDS was designed as an examination tool to identify potentially discriminatory policies or practices by banks that are very active in mortgage loan originations. There have been no substantive violations of the Fair Housing Act or ECOA found as a direct result of analysis of data collected under the system. However, data collection and reporting requirements of the system are likely to be a significant deterrent to unfair lending practices.

Interagency Efforts

The OCC is working with the other financial regulatory agencies, through the FFIEC, on four projects to enhance enforcement of fair lending and community laws. These projects are being studied thoroughly to ensure that, if implemented, they will have constructive results. The four projects include:

Executive Summary of Home Mortgage Disclosure Act Data – The Council is studying the feasibility of producing summaries of HMDA reports that will compare an individual institution's loan distribution to that of its peers in the communities in which it does business. This will provide bank managements and supervisors with an additional tool in assessing how well a community's mortgage credit needs are being met by the institutions in that community.

Sharing Community Contact Information – The Council is pursuing the proposal to share information from interviews conducted by the examining personnel with community and consumer groups among the participating agencies. The examiners' knowledge of community credit needs would be enhanced by providing them with contact information gathered from earlier interviews. Although this would require increased coordination among the agencies, duplicative interview efforts by the participating agencies would be reduced.

Information Pamphlet – The FFIEC's Consumer Compliance Task Force is discussing the feasibility of developing a pamphlet for financial institutions and consumers. It would be used to raise the financial institutions' awareness of the existence of potential discriminatory actions and would inform consumers of their rights under the fair lending, fair housing, and community related laws.

Mortgage Review Boards – The agencies are studying existing Mortgage Review Boards in Boston, Philadelphia, and Detroit to determine their manner of operation and their effectiveness. Upon completion, the results of the study will be presented to the Council to determine if participation in Mortgage Review Boards should be encouraged.

FIRREA also included significant amendments to the Community Reinvestment Act (CRA) of 1977. As you are aware, compliance with anti-discrimination laws is a critical aspect in an examiner's assessment of a bank's CRA performance; therefore, we believe that a discussion of CRA amendments is useful. The amendments include: (1) requiring public disclosure of an institution's CRA rating and examiners' evaluations of banks' CRA performance for examinations beginning after July 1, 1990; and (2) requiring that the federal financial regulatory agencies provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system in lieu of the existing five point numerical rating system.

The OCC has been working with the other federal financial regulatory agencies through the FFIEC to implement these requirements. This has been a major undertaking, requiring hundreds of hours of staff time to draft examination guidelines and definitions of the new ratings stipulated in the amendment. This task was more formidable because of the desire by all the federal financial regulatory agencies to develop consistent guidelines and clear definitions of the new ratings that will apply to all federally insured financial institutions.

On December 22, 1989, the FFIEC published in the *Federal Register* a Notice of Request for Comment on the Uniform Interagency Community Reinvestment Act Guidelines for Disclosure of Written Evaluations and Revisions to Assessment Rating System. Based on the 129 comments received in response to the notice, the guidelines were revised and approved for final publication by the Council in late April. The Uniform Interagency Community Reinvestment Act Final Guidelines for Disclosure of Written Evaluations and Revised Assessment Rating System will be published in the *Federal Register* sometime this month.

Additionally, the FFIEC's Consumer Compliance Task Force retained a professional training consultant to assist in the development of the curriculum for a course on the new requirements of CRA. The training sessions are being offered this month in four locations around

the country. Examiners from each of the agencies have been scheduled to attend these sessions. Over 150 experienced national bank examiners from the OCC are attending this school. They, in turn, will be responsible for training other examiners in their respective offices.

We are also finalizing the changes to our CRA related policies, procedures, and supervisory activities to ensure that we implement the CRA amendments in the most effective, efficient, and timely manner.

As mentioned earlier, FIRREA also included significant amendments to HMDA. OCC staff members have devoted significant time to working with representatives from the other financial regulatory agencies, through the FFIEC's HMDA subcommittee, to develop new HMDA disclosure statements and aggregate tables.

The OCC is also developing a computer program that will enable national banks to submit their HMDA data in machine readable form. The computer program will facilitate timely and accurate submission of data thereby improving the aggregation process. This may result in the earlier preparation of HMDA statements for individual banks and of the aggregation tables covering all financial institutions. The computer program is being designed to reduce the number of errors currently being submitted by the institutions. Thus, the processing cost will be significantly decreased.

Summary

The OCC is committed to enforcing the spirit and letter of fair lending laws and regulations in the national banking system. We believe that our supervisory programs are efficient and effective in promoting compliance. We strive to ensure compliance by requiring that corrective action is taken so that violations will not recur. Because we are aware that no system is perfect, we continue to make improvements in our processes.*

Appendices have been omitted. Complete copies are available from the Communications Division of the OCC.

Statement of Kevin M. Blakely, Chairman, Appraisal Subcommittee of the Federal Financial Institutions Examination Council and Deputy Comptroller, Special Supervision, Office of the Comptroller of the Currency, before the Commerce, Consumer and Monetary Affairs Subcommittee, House Committee on Government Operations, on new appraisal guidelines, Washington, D.C., May 17, 1990

Introduction

Mr. Chairman, I am pleased to appear before you today in my capacity as Chairman of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (FFIEC). I am accompanied by my subcommittee counterparts, and we are here to assist Congress in its review of the implementation of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). As you are aware, Title XI was enacted in order to protect federal financial and public policy interests in real estate related transactions, by requiring that real estate appraisals utilized in connection with federally related transactions are performed in accordance with uniform standards and are reported in writing by individuals whose competency has been demonstrated and whose professional conduct is subject to effective supervision. The impetus for Title XI resulted in large part from hearings before this subcommittee beginning in 1985, as well as in the resulting report of the Committee on Government Operations published in the fall of 1986. Among its other efforts to protect federal financial and public policy interests, Title XI established the Appraisal Subcommittee, which is comprised of representatives from each of the federal financial institutions regulatory agencies as well as the Department of Housing and Urban Development.

The principal responsibilities conferred by Title XI upon the Appraisal Subcommittee are:

- to monitor the requirements established by the states with respect to the certification and licensing of appraisers within each state;

- to monitor the requirements established by the federal financial institutions regulatory agencies and the Resolution Trust Corporation (RTC) with respect to Appraisal Subcommittee standards, as well as the determination of which federally related transactions shall require the services of licensed or certified appraisers;

- to maintain a national registry of state certified and licensed appraisers; and

- to monitor and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation, a nonprofit corporation whose membership is currently comprised of several professional appraiser associations.

The Appraisal Subcommittee has made significant progress in accomplishing the objectives established in Title XI, but much work remains to be done. In that light, Mr. Chairman, today I would like to review for you some of the major accomplishments of the Appraisal Subcommittee within the past six months; discuss some of the issues that have arisen in the course of our implementation of Title XI; and finally, provide some insight to our plans going forward.

Mr. Chairman, early in September 1989, the federal financial institutions regulatory agencies established a working group to discharge their responsibilities — as well as those of the Appraisal Subcommittee — under Title XI. In addition, the agencies designated representatives to the Appraisal Subcommittee, which began meetings in November 1989. Since that time, with the cooperation of the staff of its member agencies, the Appraisal Subcommittee has striven to fulfill its duties under Title XI. I would now like to review for you some of the steps we have undertaken to fulfill those responsibilities.

Accomplishments of the Appraisal Subcommittee

Within the past six months, the Appraisal Subcommittee has coordinated and reviewed the proposed regulations issued by the federal financial institutions regulatory agencies to establish Appraisal Subcommittee standards for federally related transactions. Those regulations are required to be put in final form by August 9, 1990. The agencies are now reviewing the comments received in response to those proposed regulations. We intend to continue to monitor developments in this area.

The Appraisal Subcommittee itself has issued two sets of guidelines to assist the states in the expeditious implementation of Title XI. We have also begun the major task of reviewing proposed state laws and regulations establishing appraisal regulatory schemes for consistency with Title XI.

In addition, we have met with the Appraisal Foundation, as well as with the foundation's independent Standards and Qualifications boards, in order to exchange views on the proper role of the foundation under Title XI and on the appropriate minimum uniform standards for appraisal practice and appraiser qualifications nationwide.

We have also commenced a study of the availability of real estate sales and financing information to real estate appraisers as required under Title XI, and have invited public comment on the availability of such information. We hope to present that study to Congress later this year. We are also in the planning stages of a study concerning the feasibility of extending Appraisal Subcommittee standards to personal property. We expect to bring the results of that study to Congress in early 1991.

Finally, we have devoted considerable time to the usual start up administrative and operational issues that any newly created government body encounters. With the assistance of temporary staff borrowed from its member agencies, the Appraisal Subcommittee has obtained its $5 million dollar initial funding from the U.S. Treasury. It has contracted with the Department of Housing and Urban Development, a member agency, to provide accounting and budget services to the subcommittee. Moreover, the subcommittee is about to enter into an arrangement with the General Services Administration (GSA) to provide personnel, payroll, telecommunications, and other administrative services on behalf of the Appraisal Subcommittee. We have also established a committee to recruit and select a full-time Director of Appraisal Oversight. We intend to assemble a permanent staff as quickly as possible. In that regard, it is our goal to hire a knowledgeable, competent, effective, and lean staff to assist in expeditiously achieving the goals of Title XI.

State Licensing and Certification Schemes

As I have suggested earlier, among the functions given by Congress to the Appraisal Subcommittee — indeed, perhaps its most important function — is the monitoring of systems established by the states for the certification and licensing of individuals who are qualified to perform appraisals in connection with federally related transactions. As you are aware, Title XI instructs the Appraisal Subcommittee not to recognize appraiser certifications and licenses from states whose appraisal policies, practices, and procedures are found to be inconsistent with Title XI. Accordingly, appraisers licensed or certified by such states would *not* be eligible to perform appraisals in federally related transactions.

In order to assist states in their implementation of Title XI, the subcommittee has issued certain guidelines reflecting its views on how best to achieve consistency

with Title XI. The objectives reflected in these guidelines include: promoting the independence of the appraisal regulatory function; reducing conflicts of interest, and addressing the Appraisal Subcommittee's concerns regarding the grandfathering and dual licensing of appraisers.

As you are aware, Congress has imposed a July 1, 1991, initial deadline by which all appraisals performed in connection with federally related transactions must be performed only by individuals certified and licensed by the states in accordance with Title XI. The subcommittee's guidelines were issued to provide timely guidance on the important areas that should be addressed by the states in setting up their appraisal regulatory systems. In this regard, several states have requested that we comment on their existing or proposed appraisal regulatory schemes, and we have commenced a review of those provisions.

We are now in the process of writing to those states who have not yet submitted any legislation for our review to offer our assistance, should they so desire, in helping to ensure that any state appraisal regulatory scheme they may propose to establish within the strict statutory time frame is consistent with the letter and spirit of Title XI. We will continue to review, as expeditiously as possible, legislation or regulations proposed or adopted by the states regarding the certification and licensing procedures for appraisers involved in federally related transactions. We intend to review such proposals for their consistency with Title XI, its legislative history, and the subcommittee's implementing guidelines. In that regard, the Appraisal Subcommittee believes that its monitoring and oversight role over state appraisal regulatory programs, including its authority not to recognize state appraiser certification and licensing in certain instances, is not meant to preclude reasonable state discretion in these areas.

The Appraisal Subcommittee, as part of its oversight responsibilities, also is required to ensure that policies and procedures initially established by the states are implemented in a manner consistent with Title XI. Accordingly, we will continue to monitor state appraisal regulatory schemes in order to guarantee effective implementation of the prudential safeguards built into Title XI.

Issues Facing the Subcommittee

Mr. Chairman, having characterized some of the accomplishments of the Appraisal Subcommittee over the past six months, I would now like to review for you certain of the major issues that have arisen in the course of our implementation of Title XI. Several of these issues — which we are now endeavoring to address — have arisen as a result of comments by the states and interested parties in response to the subcommittee's published guidelines, as well as comments to the proposed interagency appraisal regulations.

Independence of the Appraisal Regulatory Function

The first area of concern concerns the independence of the appraisal regulatory function within the states. The subcommittee's guidelines seek to provide maximum insulation for the appraisal regulatory function from the influences of any agency or organization whose members have a direct or indirect financial interest in the outcome of the agency's decision. In that regard, we have asked that the states pay particular attention, while developing proposed legislation, to provisions regarding the appointment and independence of the agency head or board, as well as to ensure the independence of the appraisal regulator from affected industries. We have also requested that the states address the paramount necessity for independence of the general decision-making and enforcement authority exercised by the appraisal regulator under each state's appraisal regulatory scheme.

In that regard, the subcommittee, in its guidelines, indicated its preference that the certification and licensing function be established as an independent regulatory agency answerable only to the governor or to a cabinet level officer who has no responsibility for realty related activities. We recognize that, due to fiscal or other constraints, a separate agency may not be feasible in every state. Accordingly, we have provided that the appraisal certification and licensing functions could be located within an existing state regulatory body, so long as it is structured to eliminate the influences of affected industries over the appraisal regulatory function. The key principle is that the individuals responsible for commissioning and disciplining appraisers should not be the same state officials responsible for other realty related activities.

Grandfathering of Appraisers

Another area of considerable comment concerned exemptions for, or the grandfathering of, existing appraisers. We feel strongly that, consistent with the purposes of Title XI, no individuals or groups should be exempted from meeting the criteria otherwise established by the states for the licensing and certification of the appraisers, and that individual or groups should not be grandfathered into the state regulatory scheme. Accordingly, such actions are proscribed by the subcommittee's guidelines. The subcommittee's guidelines indicate that this proscription is not meant to

preclude states from recognizing existing licensing and certification designations of individuals who meet state licensing and certification requirements — provided those provisions are fully consistent with Title XI.

Concerns regarding grandfathering are being driven, in part, by a fear of insufficient appraiser availability on July 1, 1991. In this regard, we are contemplating the possible need to establish some transition provisions for existing appraisers. It is not our intent to put qualified experienced appraisers out of business. We believe that appropriate accommodation can be made between ensuring the continued availability of appraisers and fulfilling the purposes of Title XI. We will, however, remain cognizant of our responsibility under Title XI to have the appraisal industry serve as a source of strength, and not of weakness, to our nation's financial institutions.

Independence of Appraisal Practice

Another issue which has arisen concerns the independence and integrity of appraisal practice generally. This independence takes on several forms. As I have already indicated, the appraisal regulatory function itself must be independent of affected industries. Second, the independence, integrity, and qualifications of individual appraisers must not be placed in jeopardy by provisions of state law that would allow individuals holding other professional licenses, such as attorneys and real estate brokers, to practice as appraisers without meeting the licensing and certification standards required of appraisers. Third, the independence of the appraiser must be assured by allowing appraisers to function autonomously. Accordingly, the subcommittee's guidelines provide that the states should not, consistent with the spirit of Title XI, require any applicant for appraiser certification or licensing to hold any other occupational licenses as a condition of obtaining designation as a real estate appraiser. We must not mandate the linkage of appraisal practice to other professions.

Finally, we must preserve the rights of the individual appraiser — over two-thirds of whom may not be affiliated with any organized professional group — to maintain his or her own individual independence, by prohibiting discrimination in appraisal practice solely on the basis of membership or lack of membership in a professional appraisal organization. In this regard, the proposed appraisal regulations contain a non-discrimination clause that would prohibit excluding an appraiser from an assignment based solely on membership or lack of membership in any appraisal organization.

Appraisal Foundation

That brings me to the nature of the relationship between the Appraisal Foundation and the Appraisal Subcommittee. As you are aware, Title XI affords an important role to the Appraisal Standards Board and the Appraiser Qualifications Board of the Appraisal Foundation in establishing uniform minimum standards and qualifications for appraisers. The law also charges the Appraisal Subcommittee with monitoring and reviewing the practices, procedures, activities, and organizational structure of the Appraisal Foundation. The Appraisal Subcommittee or its individual members have met on several occasions with representatives of the Appraisal Foundation and its independent Standards and Qualifications boards, in order to develop a proper working relationship and to exchange views on the adoption of appropriate uniform minimum standards for appraisal practice. The Appraisal Subcommittee also intends to work with the foundation, whose membership is currently comprised of several of the largest professional appraiser organizations, to ensure that it reflects the broad diversity of interests of all appraisers. We recognize the concern expressed by some that the Appraisal Foundation, given the important role afforded it by Title XI, be open to all appraisers, regardless of affiliation.

We look forward to continued cooperation with the Appraisal Foundation and its independent Standards and Qualifications boards. We hope to be able to provide them with guidance and assistance — both financially and otherwise — in fulfilling their unique responsibilities under Title XI.

State Compliance with Title XI

Title XI instructs the Appraisal Subcommittee not to recognize appraiser certifications and licenses from states whose appraisals, policies, practices, and procedures are found by us to be inconsistent with Title XI. Accordingly, appraisers licensed or certified by such states would not be eligible to perform appraisals in federally related transactions. Several commenters have asked under what circumstances the Appraisal Subcommittee would initiate proceedings which could lead to disapproval of a particular state's licensing and certification scheme.

We believe that all interested parties will be better served by cooperation rather than confrontation in fulfilling our respective roles under Title XI — and, in fact, cooperation has been the rule to date rather than the exception. Indeed, as we have talked with the various affected parties and have commenced the

process of review of state legislation, we have so far found that the states share with us a common goal in ensuring the integrity and independence of the appraisal process.

As I have previously indicated, we believe that Title XI was intended to afford reasonable discretion to the states in establishing their appraisal regulatory scheme, so long as it is consistent with the letter and spirit of Title XI. In that light, the subcommittee in its guidelines has pledged that it will meet its oversight responsibilities by reviewing each state's compliance with the intent of Title XI in its entirety. Of course, each state regulatory scheme will need to be evaluated on a case-by-case basis. In that regard, we note that the law provides some flexibility with respect to monitoring the states, and we would prefer to work with the states to correct any inconsistencies between their regulatory schemes and Title XI, rather than abruptly and inflexibly initiating disapproval proceedings.

The Appraisal Subcommittee intends to develop appropriate written procedures for such proceedings as mandated by Title XI. It is our expectation, however, that initiation of such proceedings is only a last resort after all other reasonable efforts to address deficiencies have been explored. Indeed, it is our desire to work with the states, such as through the continued issuance of subcommittee guidelines and interpretations, to assist in their timely implementation of the provisions of Title XI. Of course, primary responsibility continues to remain with the states to establish appraiser licensing and certification schemes that are consistent with the letter and spirit of Title XI.

Comments to Interagency Regulations and Other Issues Regarding Subcommittee Guidelines

Several issues have arisen in response to the proposed interagency regulations on Appraisal Subcommittee standards in federally related transactions. One area concerns the *de minimis* amount below which the agencies would not require a licensed or certified appraisal in a particular transaction. The agencies proposed a *de minimis* standard of $15,000. Numerous commenters have strongly urged raising this threshold.

Another area generating substantial comment concerns the types of transactions eligible to be performed by a licensed rather than by a certified appraiser. Under the proposed interagency regulations, state licensed appraisers may perform appraisals rendered in connection with federally related transactions involving noncomplex one-to-four family residential properties, and only if the transaction value is less than $1 million or ten percent of the regulated institution's tier one capital. Commenters have suggested expanding the duties of state licensed appraisers to encompass commercial property appraisals, rural properties, and residential appraisals not limited solely to noncomplex one-to-four family residential properties. Other commenters have raised questions about the distinction between complex and noncomplex residential properties. Questions have also been posed regarding the appropriate qualification criteria for licensed appraisers.

Commenters have expressed concern that the combination of these factors — the low *de minimis* amount, the restricted role currently contemplated for licensed appraisers, as well as the imposition of formal qualification criteria for existing appraisers — could lead to a scarcity of qualified appraisers in the short term, as well as increased appraisal costs to customers. In addition, some commenters have expressed the concern that the need to avoid conflicts of interest between the lending and appraisal functions will effectively preclude in-bank personnel from performing real estate appraisals. This is of special concern to small depository institutions which may find it particularly difficult to maintain a separation between these functions. The agencies are sensitive to these concerns and are considering ways to address them, consistent with the letter and spirit of Title XI.

We have also received substantial comment regarding our views on the proposed composition of state appraisal regulatory boards. In an attempt to afford maximum flexibility to the states and in response to those comments, the subcommittee recently expanded its guidelines in order to recognize that significant representation on a state appraisal board by members of the appraisal industry can help to ensure that such boards possess the expertise and knowledge necessary to carry out their critical functions. Accordingly, the Appraisal Subcommittee determined that an appraisal board that is comprised of a majority of individuals from the appraisal industry would not result in disapproval or rejection of a state's appraisal regulatory system based solely on that criterion. We recognize that regulatory boards in many states are comprised of a majority of practitioners from their respective fields precisely in order to ensure such expertise.

The Appraisal Subcommittee also reiterated its belief that as a matter of sound public policy, state appraisal boards or commissions — no matter what their composition — should adequately represent the broad public interest, avoid conflicts of interest, and that they should have a meaningful public representation. In this regard, the subcommittee's guidelines continue to provide that domination or majority control of appraisal boards by representatives of the real estate sales or

brokerage, promotion, development or financing industries — or their licensing or regulatory agencies — would not be appropriate or consistent with principles outlined in the Appraisal Subcommittee's guidelines and the legislative history of Title IX

Future Tasks of the Subcommittee

Many challenges lie ahead for the Appraisal Subcommittee. We must maintain and strengthen our ability to exercise an effective and continuing monitoring role over state certification and licensing procedures; the proposed interagency federal regulations governing Appraisal Subcommittee standards; the minimum uniform Appraisal Subcommittee standards and appraiser qualifications developed by the Appraisal Foundation's Standards and Qualifications boards; and the practices, procedures, activities, and organizational structure of the Appraisal Foundation itself. The Appraisal Subcommittee must also address its other responsibilities under Title XI. The subcommittee is required to establish a national registry of state licensed and certified appraisers. It must complete its study regarding the availability of real estate sales and financing information in connection with federally related transactions. The subcommittee must also study the feasibility of developing standards with respect to personal property appraisals. It must establish appropriate procedures to award and administer grants to the Appraisal Foundation. It must prepare written procedures for taking actions regarding state licensing and certification schemes. It will continue to issue guidance to the states, as appropriate, to ensure consistency with Title XI.

Conclusion

We expect that significant progress will be made in the coming year in discharging our responsibilities under Title XI. The Appraisal Subcommittee looks forward to close cooperation with Congress, the federal regulatory agencies, the states, the Appraisal Foundation, the appraisal industry, and other affected parties in ensuring that the goals set forth in Title XI are fully achieved. Mr. Chairman, thank you for the opportunity to appear before your subcommittee today to review for you our role in implementing Title XI.

Remarks by J. Michael Shepherd, Senior Deputy Comptroller for Corporate and Economic Programs, before the Southwestern Graduate School of Banking, Southern Methodist University, on banking and public policy, Dallas, Texas, May 30, 1990

It is a pleasure for me to participate again this year in the program sponsored by the Southwestern Graduate School of Banking. I should not have much trouble keeping my remarks focused on my assigned topic because it is as broad as your course title, "Banking and Public Policy."

It is appropriate that we should consider banking and public policy together. The banking system remains the central nervous system of the economy. The safety of savings, economic growth, and business expansion in the United States depend on the firm foundation of our nation's financial system, of which the banking industry is the cornerstone.

The efficiency of our system of distribution of credit and savings affects our quality of life and, of increasing significance, the success of American businesses in highly competitive world markets. As bankers you serve several important public policy roles. Not coincidentally, your banks have attracted the attention of many forms of governmental and quasi-governmental [illegible]. The government also deserves some of the blame — because of action and inaction — for the tribulations suffered by the financial services industry in the last twenty years. You in the Southwest hardly need for me to recount the grisly statistics that are still mounting, even as the economy returns to health.

In his annual economic report to Congress, President George Bush said that: "[o]ne of the most important challenges facing policymakers over the next several years is to ensure that the financial system continues to adapt efficiently to both domestic and international competitive challenges. At the same time, policymakers must take care to preserve the fundamental soundness of the system, and to prevent it from imposing unnecessary costs on taxpayers. That is the fundamental banking and public policy issue today: improving competitive opportunities without incurring unacceptable costs. These goals are not necessarily opposites.

The continued vitality of the industry is *itself* a safety and soundness issue. Under this broad heading are

new competitive opportunities for banks, a wider array of products for customers, industry consolidation, improved ability to raise capital through increased earnings, and improved franchise value. Responding to the societal interests in safety and stability, we are striving to continue to improve the quality of our supervision and bankers are working to cut costs and improve management. Numerous scholars, bankers, lawyers, and government officials are also examining ways of diversifying the risks banks undertake, by reforming deposit insurance and by insulating the insured depository institution from the risks of nontraditional banking activities. It is not even clear to me that any of the new activities under consideration is any riskier than making loans.

As you know from your personal experience in banking, the environment in which banks operate is undergoing unprecedented and accelerating change. The U.S. financial services industry is fragmented. As of year-end 1989, there were about 12,500 commercial banks; 2,900 thrifts; and 13,400 credit unions. Even though we expect substantial consolidation in the industry, statutory restrictions still preserve this fragmented market.

Historically, banks, thrifts, securities firms, and insurance companies were highly differentiated on both the asset and the liability sides of their balance sheets. As you know, those old lines of demarcation are increasingly blurred, driven by market pressures and technological developments that have largely eliminated the monopoly on credit information once possessed by banks and have permitted borrowers and creditors to interact directly through the securities markets. Moreover, as the ratings services reexamine the credit ratings of banks, banks are in no position to intermediate by substituting their creditworthiness for that of potential borrowers. Increasingly, continued bank viability will depend upon your ability to function in this environment — to respond to technological changes and pressures from new and aggressive competitors, including investment banks, insurance companies, and nonfinancial institutions. Congress also must acknowledge the threat facing U.S. financial institutions and enact reforms to permit our financial institutions to compete with each other on equal terms in the U.S. and with foreign competitors in the global marketplace

An old issue but still an important one, despite incremental advances made by the Federal Reserve System and the Comptroller of the Currency (OCC) through interpretive rulings, is reform of the Glass-Steagall Act. Improvements in the ability to gather and analyze financial information, shifts in savings from insured deposit-taking institutions to pension funds and mutual funds, and the development of sophisticated, hybrid financial instruments, have all exposed our archaic statutory regime and spotlighted the costs of inaction to consumers and providers of financial services. Without the ability to provide customers with a more complete range of products, and to continue to serve their needs in new markets, banks will be unable to grow the earnings necessary to attract needed capital.

Most Organization for Economic Cooperation and Development (OECD) countries are in the process of taking, or have already taken, steps to provide financial institutions in their countries the opportunity to adapt to this changing marketplace. They are doing this by permitting their financial institutions to exercise a broad range of powers and thus be able to offer their customers whatever combination of products and services they may demand and which the institutions feel capable of providing.

These countries are providing an environment hospitable to a global financial services business. The premier example is the United Kingdom, but other countries are following suit because it makes good economic sense. Japan, too, is expected to move toward some form of universal banking system as serious consideration is being given to repeal of Article 65, the Japanese equivalent of our Glass-Steagall Act.

I understand that most of you are affiliated with community banks, and you are probably thinking that the international competitiveness of U.S. banks is not an issue of concern to you. Yet your own small business borrowers will tell you that international competitiveness is not just the concern of companies doing business abroad. It is of vital concern to anyone who wants to sell a car, a computer, a television, a machine tool, or almost anything else in your home towns. I submit that foreign competition — and by that I do not mean NCNB, BancOne, Chemical, or First Interstate — is real in your markets. There are still plenty of banks and thrifts that need to be sold. Foreign competitors interested in acquiring these failed institutions will arrive strengthened by a diversified base in their home markets and generally superior access to the capital markets.

Not surprisingly, the foreign share of U.S. banking assets is on the rise. Assets of foreign-owned banks were $790 billion as of year-end 1989; this represents more than 20 percent of U.S. banking assets. Japan is the dominant foreign presence with 54 percent of foreign-owned banking assets in the U.S. Yet in sharp contrast to the continued progress toward financial market liberalization in Europe, the U.S. banking system remains entrenched in a restrictive structure developed over 50 years ago. The origins of the Glass-Steagall Act and other restrictions on banking powers are rooted, as you know, in Depression-era concerns

If U.S. banks are to remain competitive in both domestic and international markets, it is essential to avoid encumbering them with costly restrictions on their activities that are not needed to ensure the safety and soundness of the U.S. banking system and the deposit insurance system. I am particularly concerned that some U.S. laws, such as the Glass-Steagall Act, may impair the efficiency of capital markets, and thereby raise the cost of capital for U.S. firms, especially small businesses that do not have direct access to capital markets. They may also raise the cost of capital for U.S. banks, placing them at a disadvantage in international markets and discouraging them from making the investments necessary to compete effectively for business overseas.

Improved diversification opportunities would strengthen the commercial banking system by increasing income-earning opportunities, thereby reducing vulnerability to economic declines in particular geographic markets. Not only would the ability to compete strengthen the viability of banks domestically and internationally, but it would permit a more efficient distribution of resources to the economy. Enhanced competition provided by financial reform would also benefit consumers of financial services by creating a broader array of financial services and a more rapid and efficient response to changes in technology and consumer needs.

Opponents of expanded bank powers argue that the risks are too great; that expanded powers could lead to a bank debacle comparable to that of the thrifts. We disagree. We believe that a less restrictive and more competitive system could be structured in a way that limits the availability of the safety net provided by federal deposit insurance and the Federal Reserve System's discount window, while also requiring debt holders to bear the risks associated with new activities.

A safe, yet competitive, marketplace can be achieved through the use of existing safeguards coupled with certain banking structures that insulate the bank fully from the potential risks of affiliation. For example, a bank subsidiary structure, in which the bank's investment in a subsidiary is deducted from the bank's capital and the bank is not held liable for the obligations of its insulated affiliate, would give banks a new source of financial strength without creating uncontrollable risks for the deposit insurance fund or consumers. We are currently examining the costs and benefits of such firewalls.

Furthermore, and critically, deregulation does not mean less supervision. Regulators will have to be especially vigilant if the safeguards are to work. And Congress will have to believe in our vigilance to enact the statutory reforms we think are so important.

You probably know, however, that there is virtually no short-term appetite for new powers legislation and that statutory change is unlikely this year. But Washington is going to take a careful look at deposit insurance reform and competitiveness issues this year to prepare for legislative action next year.

Title X of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) required that a study of deposit insurance reform be directed by the Treasury Department and that it be completed by February 1991. The study will cover a broad range of topics related to deposit insurance.

Deposit insurance reform has been studied many times in the last few years: by the Cabinet Council on Economic Affairs in the Reagan Administration, by the FDIC, and by numerous academicians. One goal is to be sure that this study, at least temporarily, removes the excuse of the need for further study before Congress acts.

One related topic is whether our current system of deposit insurance could be exposed to problems if bank powers are expanded. For example, bank deposits, and hence the insurance fund, could be exposed to new risks. While those risks may not be greater than the risks banks already take, they will be different in character.

We need to ascertain whether it is necessary or desirable to extend the federal safety net to nontraditional banking activities such as securities and insurance underwriting. It may be desirable, for example, to limit the extent to which institutions are allowed to fund expanded powers with federally insured liabilities. This could be accomplished in several ways:

- By limiting the types of assets that may be funded with insured liabilities; or
- By restricting the coverage of liabilities, e.g., by altering the statutory limit on the size of insured deposits, by asking the depositor to share losses over a certain amount with the institution, or by withdrawing insurance altogether for certain types of insured liabilities, such as brokered deposits.

While these options, among many others, will be examined in the Treasury Department's deposit insurance reform study, deposit insurance reform alone will not assure that depository institutions will remain competitive and able to generate sufficient earnings to

maintain adequate capital. The ability to generate earnings that maintain and attract capital is ultimately the best protection for the deposit insurance fund and the U.S. taxpayer.

The OCC is not in favor of reregulation, instead, we support further deregulation. Those favoring reregulation are ignoring the competitive pressures that depository institutions face from other types of financial services providers. Furthermore, reregulation overlooks the simple fact that the savings and loan industry got into trouble not from a lack of regulation, but from lack of supervision.

Regulation determines what institutions can do. Supervisors examine how managers behave. It is easy to confuse the two, in part because regulation has in the past been called upon to do the work of supervision. Strong supervision, however, not reregulation, can prevent similar problems from happening again.

At the OCC, we are intent on doing what we can administratively to ensure that the national banking system never poses an undue risk to the deposit insurance system. We cannot stop all bank failures. In trying to do so, we would suffocate the national banking system. But we can act administratively to ensure that individual problems do not add up to a systemic problem.

In addition to strong supervision, we believe in an adequate capital base. Capital adequacy is critical to a well-managed financial institution and is a fundamental aspect of prudential bank supervision. Capital is a buffer against losses and a protection against failure; a strong capital requirement is also an important constraint on reckless growth. Our risk-based capital guidelines are also designed to create a better alignment between capital and credit risks, to incorporate off-balance sheet activities into minimum capital requirements, and to provide more competitive equity internationally and domestically. The guidelines also place an increased emphasis on equity capital.

The guidelines provide, for the first time, regulatory guidance on the minimum amount of equity capital banks must maintain. This is important since equity capital provides an unambiguous cushion against unforeseen losses. Furthermore, since equity capital will represent a higher proportion of regulatory capital requirements under the new risk-based capital guidelines, banks will increasingly be required to confront the discipline and meet the expectations of the markets as well as the regulators. We anticipate that banks will continue to augment their capital, especially their equity capital, as a result of the risk-based capital guidelines.

At the OCC, we have underscored the commitment to equity capital through our three percent leverage ratio proposal. The leverage ratio is designed to ensure that banks that react to risk-based capital by investing predominantly in assets with low risk weights still have to maintain a certain level of capital. It is based on the principle that any bank, no matter how minimal its credit risks, needs to maintain capital to protect against unforeseen events and additional risks such as interest rate, operational, and foreign exchange risks. Since the leverage ratio will operate in tandem with our minimum risk-based capital requirements, national banks will be required to meet both tests.

The OCC's rule on the definition of insolvency also shows our commitment to equity capital. Learning from the unfortunate experience of approximately 800 commercial bank failures in the last five years, we have determined that virtually no banks that exhaust their equity return to health without assistance. History has also shown that losses at failed banks are generally greater than the reserves that had been set aside for them. The new rule generally provides that the Comptroller will close national banks when they reach equity insolvency, i.e. common stockholders' equity, preferred stock, and related surplus, even if they have not exhausted other capital components such as the loan loss reserve.

We also believe that a bank should be closed when it no longer has any economic value to its owners. To allow such an institution to continue to operate would permit operations without any risk to the equity interests of stockholders. Over the last several years, the S&Ls have demonstrated clearly what happens when an institution is allowed to continue to operate after the stockholders' interest is depleted.

We count on all the effective and sound banking management that you bankers can provide. Our mission, as we see it, is to assure that the banks under our supervision have good management; managers with the intelligence and the foresight to create and maintain systems to measure risks and keep them under control.

We believe that bankers should manage as if there were no bank supervisors and I do not mean that in the sense of complete license. Instead, we believe that while bank supervisors are tangential, management is essential. The risks, the losses, and the consequences of those losses will be there whether supervisors exist or not.

Bank directors and bank management play a vital role in determining the success of a bank. About three years ago, we conducted a study on national bank failures in the Midwest and Southwest, where de-

Depressed conditions in agriculture, energy, and real estate have driven many banks into the ground. Yet many banks in that same region remained unbeaten and some banks that we looked at actually improved. We asked ourselves: Why did the performance of national banks diverge so dramatically over a decade after they were faced with similar declines in their economic environments? The answer we found: Management. Banking performance — good and bad — was primarily the result of managerial behavior, even in the most depressed economic environments.

We analyzed virtually every national bank that failed in those regions over the decade under study, and we found that the failed banks, as well as those that had significant problems, consistently lacked policies, systems, and controls to guide their staffs in performing the necessary job of managing an income-producing institution. Most of the failed banks had no loan policies or, if they had them, the policies were not followed. Most had inadequate systems to ensure compliance with either internal policies or banking laws. Most had inadequate controls or supervision of key bank officials or departments. And, more than half had inadequate problem loan identification systems.

Bankers must develop and implement policies, systems, and controls to guide bank management in performing the tasks required to maintain a well-managed and income-producing loan portfolio. You should develop and implement management systems that contribute to good and timely decision-making. An effective management system does not have to be driven by a mainframe computer. A policy does not need to be a treatise. Policies should be guiding principles that produce the same approach to the business, whether the responsibility is being carried out by the chief executive officer or by the newest employee.

As a bank supervisor, we check to see that management has the procedures, policies, and systems in place to manage properly, to see that management has a clear understanding of the risks it has taken, to see that problems have been addressed. We want to find well thought-out risk management standards and evaluation techniques appropriate for the risk profile of the individual bank and, most importantly, standards and techniques that work.

In our judgment, establishing and adhering to sound policies and procedures are critical to a bank's success. As our research indicates, managerial strength is likely to be a strong factor in separating banks that will be profitable from those that will not. Thus, in these challenging times, sound bank management is essential.

In my judgment, sound management includes effective systems, technical competence, and integrity. High ethical standards obviously are important in the aftermath of the repugnant greed and dishonesty uncovered in the savings and loan debacle. I suggest that moral strength, a strength that inspires employees and informs all decisions, is the foundation of leadership. Southwestern Graduate School of Banking defines its mission as the development of leader. The standards that each banker holds himself to can make a difference to the industry as a whole.

Thinking about this issue while preparing these remarks, I was reminded of a story the President told a few weeks ago about the little boy walking along a beach with an old man. As they walked along, the boy stopped to pick up starfish left behind by the falling tide and threw them into the water. "I'm saving these starfishes lives," the little boy said. "If I left them here they'd die." The old man, trying to give him some perspective, said "But the beach goes on for miles, there are so many starfish. It can't make much of a difference." The little boy picked up another one and threw it back into the ocean and said, "It makes a difference to this one."

You can make a difference. I wish you every success as you hone your skills here at the Southwestern Graduate School of Banking to resume your careers as leaders who make a difference in the banking industry.

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501 — March 19, 1990

This letter responds to your inquiries regarding the lending limit treatment of various transactions involving assets owned by savings associations receiving assistance in the form of capital loss coverage from the FSLIC Resolution Fund ("the Fund"). You have asked whether these transactions qualify for exemption from the lending limit as "loans or extensions of credit to or secured by unconditional takeout commitments or guarantees of a department, agency, bureau . . ., or establishment of the United States or any corporation wholly owned directly or indirectly by the United States." *See* 12 U.S.C. 84(c)(5); 12 CFR 32.6(e).

Specifically, you have asked first, whether the financed sale of an association's assets, including real property or other assets, which is covered by a guarantee from the Fund would be exempt from the lending limit. Second, you have inquired whether a new advance of funds to the purchaser of covered assets would be exempt if the advance itself were also covered by such a guarantee. Third, you have asked whether new funds in excess of the lending limit may be advanced to the original borrower where the borrower's loan has become a covered asset which the association has elected to hold rather than sell.

Background

The questions that you have proposed concern the activities of savings associations regulated by the Office of Thrift Supervision ("OTS"). The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") significantly changed the lending limit to which savings associations are subject. Section 301 of FIRREA added section 5(u) to the Homeowner's Loan Act ("HOLA"), 12 U.S.C. 1461 *et seq.*, generally providing that the national bank lending limit standard, 12 U.S.C. 84, "shall apply to savings associations in the same manner and to the same extent as it applies to national banks." FIRREA 301, 103 Stat. 183, 310-11 (1989). Thus, you have requested an opinion from the OCC regarding the manner in which 12 U.S.C. 84 would apply to a national bank in comparable situations.

*Note Interpretive Letters and No Objection Letters reflect the views of the Comptroller's legal staff Trust Interpretations reflect the views of the Trust Activities Division

For the reasons which follow the transactions in question would be exempt from the national bank lending limit. Please note, however, that the Office of the Comptroller of the Currency ("OCC") does not regulate thrifts a responsibility which resides with the OTS Therefore this opinion addresses the lending limit treatment that would be accorded to transactions by a national bank in an analoguous circumstance, thrifts may be subject to different requirements. While section 5(u) of HOLA generally imposes the national bank lending limit on thrifts, this section also contains special rules for thrifts which do not apply to national banks.[1] Furthermore, section 5(u) contains a provision permitting the Director of the OTS to impose more stringent restrictions if necessary to protect the safety and soundness of a savings association. Therefore, we recommend that you consult with the OTS for guidance on the extent to which the special rules for thrifts in section 5(u) would apply to the proposed transactions.

Discussion

The following discussion addresses your questions according to the order in which you have raised them.

I. Financed Sale of Bank Assets

First, you have inquired whether the financed sale of an association's assets, including real property or other assets, that are covered by a guarantee from the Fund, would be exempt from the lending limit. Over the past several decades, the OCC has held that the financed sale of a bank's own property is not subject to 12 U.S.C. 84, the national bank lending limit. *See, e.g.*, letter from Rosemarie Oda, Senior Attorney, Legal Advisory Services Division (August 20, 1984) (unpublished) (section 84 has not been applied to sale of property acquired by national banks in satisfaction of debts previously contracted nor to sale of bank premises); letter from John E. Shockey, Deputy Chief Counsel (April 6, 1976) (unpublished) (section 84 does not apply to purchase money mortgage for sale of property acquired in satisfaction of debt previously contracted); letter from James J. Saxon, Comptroller of the Currency (November 13, 1963) (unpublished) (section 84 does not apply to purchase-money note received by a bank's premises subsidiary for real estate sold), letter

[1]The special rules for thrifts provide that a savings association may make loans to a single borrower (1) for any purpose of up to \$500,000, (2) for the development of domestic residential housing units not to exceed the lesser of \$30,000 000 or 30 percent of the savings association's unimpaired capital and unimpaired surplus under certain conditions, and (3) to facilitate the sale of real property acquired in satisfaction of debts previously contracted of up to 50 percent of an association's unimpaired capital and unimpaired surplus

from G.W. Garwood, Deputy Comptroller of the Currency (April 9, 1958) (unpublished) (purchase note and mortgage for former banking house does not constitute loan subject to section 84); letter from Gibbs Lyons, Deputy Comptroller (January 6, 1936) (unpublished) (note given in payment of farm acquired by bank in satisfaction of debt is not a loan subject to section 84).

The OCC generally will permit the financed sale of bank assets only in circumstances where a bank's position would be no worse as a result of accepting a promissory note from the purchaser of bank assets. *See* Letter from Charles F. Byrd, Assistant Director, Legal Advisory Services Division, (August 4, 1981) (unpublished) (although sale of an asset in return for a note generally need not be treated as a loan for section 84 purposes, this ruling is only applicable where sale of a bank asset is for notes and where bank is in no worse position holding the notes than when it held transferred asset; sale of bank premises for a term contract subject to a subordinated lien does not meet these requirements).

Some of the earliest letters indicate that the OCC's policy with respect to the financed sale of bank assets initially developed from the notion that Congress could not have intended to place obstacles in the way of a bank's disposition of property categorized as Other Real Estate Owned ("OREO").[2] This policy was eventually expanded to cover types of property other than real estate. *See, e.g.*, Letter from Richard V. Fitzgerald, Director, Legal Advisory Services Division (September 3, 1980) (unpublished) (exemption from section 84 applies to assets consisting of nonperforming loans and real estate and is predicated on assumption that sale is made to third party who was not involved in the prior defaulted loans).

It is not necessary to consider the implications of the guarantee by the Fund of the assets in question here, because the OCC has traditionally held that a national bank's attempts to facilitate the sale of its own property by accepting a promissory note from a qualified buyer do not fall within the ambit of the section 84 lending limit. In any event, if it had been the position of the OCC to include the financed sale of bank assets within a national bank's legal lending limit, a note secured by a federal guarantee as defined in 12 U.S.C. 84(c)(5), would not be included in the bank's lending limit.[3]

[2] Banks currently may hold OREO property for up to ten years, however, when this position was first articulated national banks were required to dispose of such property within five years in order to comply with the provisions of 12 U.S.C. 29.

[3] [illegible] under which a guarantee will qualify [illegible] exception, 12 U.S.C. 84(c)(5) [illegible]

II. New Advances to a Purchaser

You have also questioned whether the lending limit would apply to a new advance of funds to the purchaser of covered assets, if the advance itself were covered by a guarantee from the Fund. While the OCC has long held that the sale of assets by a national bank in return for a promissory note is not subject to the lending limit restrictions set forth in sectin 84, the OCC has stated that an advance of new money by a bank to a purchaser of its property would fall within the scope of a section 84 limitations. Generally, a bank will be permitted to make advances to a third party purchaser of bank property if the advances alone or together with other outstanding loans to the purchaser do not exceed the bank's lending limit. *See, e.g.*, letter from Richard V. Fitzgerald, *supra* (taking of promissory note exempt from limitations of section 84, however advance of further funds to finance transaction would be subject to section 84); letter from Bruce Heitz, Regional Counsel (August 29, 1977) (unpublished) (additional funds to make improvements upon property will be subject to section 84 but calculation should not include purchase money mortgage note). Based upon your representations regarding the nature of the guarantee in question, however, this general policy would not apply to new advances to purchasers of covered assets, if the advances are similarly covered by capital loss agreements.

As noted above, transactions which are considered "loans or extensions of credit to or secured by unconditional takeout commitments or guarantees of a department, agency, bureau, board, commission, or establishment of the United States or any corporation wholly owned directly or indirectly by the United States" are exempted from the lending limit. *See* 12 U.S.C. 84(c)(5); 12 CFR 32.6(e)(1). In addition, the OCC regulation interpreting 12 U.S.C. 84(c)(5) provides in pertinent part:

> (2) This exception may apply to only that portion of a loan or extension of credit that is covered by a federal guarantee or commitment.
>
> (3) For purposes of this exception, the commitment or guarantee must be payable in cash or its equivalent within 60 days after demand for payment is made.
>
> (4) A guarantee or commitment is unconditional if the protection afforded the bank is not substantially diminished or impaired in the case of loss resulting from factors beyond the bank's control.

See CFR 32.6(e). The guarantees which you have described are contractual indemnification agreements originally concluded between savings associations and the former Federal Savings and Loan Insurance Corporation ("FSLIC"). With the enactment of FIRREA and dissolution of FSLIC, these obligations were assumed by the newly created FSLIC Resolution Fund, under management of the Federal Deposit Insurance Corporation ("FDIC"). The FSLIC Resolution Fund is funded from several designated sources. However, FIRREA provided that to the extent that the assets of the FSLIC Resolution Fund are insufficient to cover the liabilities of the Fund, "the Secretary of the Treasury shall pay to the Fund such amounts as may be necessary, as determined by the Corporation [FDIC] and the Secretary, for FSLIC Resolution Fund purposes." *See* FIRREA 215, 103 Stat. 252, 253 (1989). Thus, assets covered by assistance agreements may be considered to be secured by a takeout commitment or guarantee by "a department, agency, bureau, board, commission or establishment of the United States" within the meaning of 12 U.S.C. 84(c)(5).

The indemnification agreements provided to assisted associations guarantee capital loss coverage by the Fund, ensuring that upon disposition of a covered asset, associations will not incur a loss.[4] With respect to new advances, your letter states that where an association finances the sale of a covered asset and makes additional advances to the purchaser with FDIC approval

> (e.g., to fund buildouts or necessary expenditures such as taxes,) the resulting asset becomes a covered asset to which the provisions on capital loss coverage apply should the loan go into default. Assisted associations effectively run no credit risk in the disposition of covered assets because of this guarantee provided by the FSLIC Resolution Fund.

Therefore, new advances to a purchaser of covered assets will be exempt from the lending limit to the extent that any new advances to the purchasers of covered assets are guaranteed by the Fund.[5] *See* 12 CFR 32.6(e)(2).

You have also explained that the indemnification agreements guarantee the book value of an association's assets designated for capital loss coverage. The guarantee is payable to an association within 30 days after demand, either in cash or a note. Thus, the capital loss coverage agreements described above appear to satisfy the requirements of 12 CFR 32.6(e)(3).

In addition, you have asserted that payment to an assisted institution pursuant to a capital loss coverage agreement cannot be jeopardized "in the case of loss resulting from factors beyond the institution's control." Based upon this representation, it appears that advances of new funds by assisted associations, made with the approval of the FDIC, in connection with the sale of covered assets, would be unconditionally reimbursable upon default through the capital loss agreements as required by 12 CFR 32.6(e)(4). Hence, exception in 12 U.S.C. 84(c)(5).

III. Retained Assets

Finally, you have inquired whether new funds in excess of the lending limit may be advanced to the original borrower where the borrower's loan has become a covered asset which an acquiring association has elected to hold rather than sell. This question is easily answered with reference to the principles enumerated above. Loans acquired by assisted associations covered by the capital loss agreements discussed previously will qualify for the lending limit exception in 12 U.S.C. 84(c)(5). New advances to a borrower will also qualify for this lending limit exception, to the extent that such advances are similarly guaranteed.

Paul Allan Schott
Chief Counsel

* * *

502 — April 6, 1990

This is in response to your letter dated January 5, 1990, to Joseph E. Vaez, Multinational Field Director - San Francisco, Office of the Comptroller of the Currency ("OCC"), in which you provided information and a legal opinion concerning the participation by * * * ("Bank") in two, related, debt/equity swap transactions involving the Bank's Brazilian and Costa Rican sovereign debt. The Bank considers the transactions to be authorized under its authority to acquire property in satisfaction of debts previously contracted ("DPC") and relies on earlier no-objection positions of the OCC staff addressing debt/equity swap transactions involving foreign

[4]Through yield maintenance agreements, an assisted association also receives a minimum yield on the entire covered asset portfolio which it continues to hold.

[5]Your letter mentions that in some agreements, the assisted association has agreed to bear only a certain portion of losses incurred on covered assets. Please note that the lending limit exception in 12 U.S.C. 84(c)(5) will only apply to that portion of a loan covered by an appropriate guarantee. *See* 12 CFR 32.6(e)(2).

public debt. I am providing this letter in order to clarify the scope of those earlier no objection positions and to advise the Bank of the OCC's position regarding the transactions at issue.

The Transactions

As indicated in your correspondence, both transactions involve the Bank's accepting property from * * * ("Corporation"), a * * * corporation engaged in oil and gas exploration and mining operations. The Corporation holds oil and gas leases on land in a number of states in the United States and a mining concession in Costa Rica. The Corporation is a reporting company with 4.5 million shares of common stock outstanding, and its stock is traded over the counter. Its closing price on January 3, 1990, was $6.00 per share, with high and low prices for the preceding 52 weeks at $6.25 and $3.75, respectively. As of September 30, 1989, the Corporation's net book value was $6 million. The Corporation reported a loss of $2.2 million for the nine months ending September 30, 1989.

Transaction I

As I understand the facts, in the first transaction ("Transaction I") the Bank exchanged Brazilian sovereign debt with a face value of $29,268,292.68 for 1,100,918 shares of the Corporation's Series A preferred stock, pursuant to a Stock Purchase Agreement with the Corporation dated as of December 22, 1989. Acting as agent for the Corporation's account, the Bank sold this Brazilian debt in the secondary market for net proceeds of $6 million. No foreign government was involved in Transaction I and it did not result in the extinguishment of any obligation of the government of Brazil or, through exchange, the debt of any other foreign government.

The preferred stock received has an aggregate liquidation preference of $6 million and is convertible into common stock at the option of the holder. Such conversion is mandatory if the market price of the common stock reaches $7.35 for 20 consecutive trading days. The Stock Purchase Agreement and a separate agreement with the Corporation's majority shareholder include various provisions intended to protect the Bank's interest in the event the preferred stock is converted into common. The investment representations given by the Bank in the Stock Purchase Agreement specifically allow for a disposition of the shares "as required by applicable law" which, according to your letter, is intended to address the limited holding period applicable to DPC stock.

The sovereign debt exchanged by the Bank represents an obligation of a Brazilian company that is guaranteed by the Republic of Brazil and has been nonperforming since January 1987. Brazil's sovereign debt was rescheduled in 1988 but you indicated that Brazil has failed to perform under the rescheduled agreement. At the time of disposition, the secondary market value of the Brazilian debt exchanged was approximately 20.5 percent of the face amount, less applicable sales commissions. According to your letter, based on the Bank's evaluation of the value of the Corporation's existing domestic properties and of the likelihood that the Corporation will be granted certain Costa Rican oil concessions as described below, it is the Bank's business judgement that the securities received provide a reasonable opportunity for obtaining a significantly higher value than the continued holding of the debt or its sale in the secondary market. The Bank regards the liquidation preference of the preferred stock as adequate protection against the risk of loss. The Bank also considers the majority shareholder's stated intention of selling the Corporation within two to four years and recent inquiries including a firm acquisition offer for the company as indications that the Bank will be able to recover the value of its equity within the permissible holding period for stock acquired DPC.

Transaction II

You also indicate that the Bank and the Corporation have agreed to enter into the second transaction ("Transaction II") if and when the Costa Rican government grants the Corporation an oil concession on certain parcels in Costa Rica. Under the terms of a Debt Purchase Agreement to be executed at that time, the Bank will provide up to $3 million in face amount of Costa Rican sovereign debt in exchange for the right to receive royalty payments from oil produced on the concession parcels. The debt will be tendered to the Costa Rican government as consideration for the concessions granted and, accordingly, the face amount of the debt will be extinguished.

The Bank's internal evaluation of the Costa Rican debt to be exchanged reflects the view that Costa Rica demonstrates an inability to service external obligations, with poor prospects for restoration of debt service. The debt to be selected for exchange will likely have been nonperforming since November 1986. You indicate that the Bank expects to receive the royalty payments in United States dollars, and that the Bank has evaluated the oil producing potential of the expected concession parcels. On this basis, the Bank has determined that ownership of the royalty right will place it in a superior position than if it continues to hold the debt or sells it in the secondary market.

Legal Analysis

As stated in your letter, the Bank considers both transactions to be authorized under its power to acquire stock and other property DPC, and to be substantially similar to earlier proposals addressed in a series of OCC No-Objection Letters on debt/equity swaps. *See* OCC No-Objection Letter No. 89-1 (January 25, 1989), *reprinted in* Fed Banking L. Rep. (CCH) ¶ 83,009; OCC No-Objection Letter No. 88-7 (May 20, 1988), *reprinted in* Fed Banking L. Rep. (CCH) ¶ 84,047; OCC No-Objection Letter No. 87-10 (November 27, 1987), *reprinted in* Fed Banking L. Rep. (CCH) ¶ 84,039.

The statutory basis for a national bank to acquire property DPC is 12 U.S.C. 29 and 24 (Seventh). Section 29 of 12 U.S.C. provides that a national bank may "purchase, hold and convey real estate . . . such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings." Through analogy to 12 U.S.C. 29, the courts have interpreted the incidental powers of national banks granted in 12 U.S.C. 24 (Seventh) to authorize the acquisition and holding of personal property, such as stock, in satisfaction of debts previously contracted. *See First National Bank of Charlotte* v. *National Exchange Bank of Baltimore*, 92 U.S. 122, 127 (1875); *Atherton* v. *Anderson*, 86 F.2d 518, 525 (6th Cir. 1936), *rev'd on other grounds*, 302 U.S. 643 (1937). Real property acquired DPC is subject to the limitations contained in 12 U.S.C. 29 and 12 CFR 7.3025, and the OCC has applied similar limitations by analogy to stock and other property acquired DPC under a bank's incidental powers.

DPC authority is limited, as it is intended only to allow banks the possibility of recovering or reducing risk on loans that have significantly deteriorated or are in default. The OCC has recognized that foreign public sector debt may be eligible for DPC treatment when, in the opinion of bank management, the acquisition of property in satisfaction of the debt is necessary to prevent anticipated loss. In this context, the rescheduled or nonperforming condition of the sovereign debt is viewed as sufficient evidence of adverse change in the financial capacity of the borrower to permit a bank to exercise its DPC authority.

Property acquired DPC is generally subject to a five-year holding period under 12 U.S.C. 29 and applicable judicial and OCC precedent. Upon application to the OCC, the holding period may be extended on a yearly basis for up to an additional five years. However, a bank is obligated to dispose of DPC property prior to the end of the holding period if it can recover the amount of the loan plus costs associated with preserving the asset.

A key element of DPC authority under 12 U.S.C. 29 is that the DPC transaction must involve some significant concession to the borrower, which can include the extinguishment of some or all of the debt owed, the substantial reduction of some of the interest owed, or some combination thereof, such that the bank's acquisition of the property operates as a total or partial "satisfaction" of the borrower's contractual obligation. This interpretation of the statute is consistent with the principle that DPC transactions are authorized only for the purpose of facilitating loan recovery. Loans are made by mutual agreement and, accordingly, the exercise of the power to acquire property in "satisfaction" of a troubled loan would require some benefit to the borrower's position under basic principles of contract law. In the foreign sovereign debt context, each of the transactions considered by the OCC in the above referenced no-objection letters involved the extinguishment of the face amount of the foreign sovereign debt tendered.

With respect to Transaction II, I agree that it is similar to the earlier transactions reviewed by this office and there is no objection to the Bank's participation in the Costa Rican debt/equity swap. Bank management has determined that rights to the royalty interest will be superior to the continued holding of the nonperforming and rescheduled Costa Rican debt. Whether the royalty interest to be assigned constitutes an interest in real property or in other property, it would be equally eligible for the Bank's acquisition under its DPC powers, as discussed above. The fact that the property to be received in satisfaction of the debt is not collateral for the loan or other property owned by the borrower does not affect the permissibility of the transaction under 12 U.S.C. 29 or 24 (Seventh). As in the earlier proposals, it is sufficient that the transaction results in the extinguishment of debt owed by the foreign government and is undertaken for the purpose of placing the Bank in a better position and not for speculative purposes. Finally, the Bank represents that its estimate of the value to be received incorporates the holding period limitations.

With respect to Transaction I, I do not agree with the Bank's evaluation that it conforms in all material respects to the transactions previously considered by this office. Certainly, the Bank has made the requisite showing of changed financial capacity on the part of the borrower, and Bank management has made the necessary business judgement that the acquisition of the preferred stock places it in a superior position to the continued holding of the debt. In addition, the Bank correctly notes that neither the type of property received nor the fact that the Brazilian debt was immediately sold in the secondary market should render the

transaction ineligible under OCC precedent. However, unlike in Transaction II and the proposals addressed in the above referenced no-objection letters, in Transaction I the Bank dealt only with a third party. The transaction did not involve any benefit to the borrower, whose debt was not reduced, extinguished or otherwise "satisfied." In effect, the Bank used the Brazilian debt as scrip for the purpose of the Corporation's preferred stock.

By contrast, the earlier foreign debt/equity swaps considered by this office involved either (1) the bank's tendering the debt directly to the original foreign sovereign borrower in return for local currency to be used in acquiring third party property through that country's debt/equity swap program, or (2) the bank's exchanging the original debt for another sovereign's debt and then tendering that debt to the second government in exchange for local currency to be used in that country's debt/equity swap program. In both types of transactions, the obligation of the foreign sovereign debtor corresponding to the face amount of the debt involved in the swap was extinguished. In addition, I note that in each case the swap resulted in the bank's ownership of property located in the foreign sovereign debtor's country and was accomplished under a debt conversion program offered by the sovereign debtor. Clearly, in the transactions previously considered by this office, the terms and conditions of the foreign debt/equity swaps were mutually acceptable to the debtor, the bank, and the owner of the property.

As discussed above, some concession to the borrower is integral to the exercise of a bank's DPC authority. The DPC authority is not intended to provide a general means whereby banks may use their troubled loans to purchase third party property in the open market in transactions wholly unrelated to the borrower. Accordingly, as it is my conclusion that the Bank's acquisition of the preferred stock in Transaction I was not authorized under its DPC powers, the Bank is advised to contact its supervisory office concerning the appropriate remedial measures to be taken. Any future debt/equity swap transactions entered into by the Bank must be structured so as to result in the substantial reduction or extinguishment of the debt owed.

The positions stated in this letter are based on your description of the transactions and the representations made in your letter dated January 5, 1990. Please be advised that the analysis provided herein is not intended as a departure from earlier discussions of DPC authority in the debt/equity swap context, nor does it modify the conditions under which national banks may acquire DPC property when the borrower is not a sovereign.

Peter Liebeseman
Assistant Director
Legal Advisory Services Division

* * *

503 — April 4, 1989

This is in response to your letter of February 27, 1989, in which you requested the OCC's no-objection position regarding the ownership of directors' qualifying shares with an aggregate fair market value of $1,000 or more but an aggregate par value of less than $1,000. You stated that the qualifying shares of bank directors consist of common stock in the bank and that the bank intends to reduce the par value of its common stock from $5.00 to $1.00 per share. Once the reduction has occurred, bank directors will no longer own common stock with an aggregate par value of $1,000 or more, as is required by 12 U.S.C. 72 and 12 CFR 7.4210. You questioned whether directors will have to make additional material financial investments in order to own the required amount of directors' qualifying shares. The OCC will not require the bank directors to purchase additional shares.

12 U.S.C. 72 allows directors to meet their obligation to own qualifying shares by owning stock in either a national bank or a company which controls a national bank. The statute requires every director of a national bank "to own in his or her own right either shares of the capital stock of the [national bank] of which he or she is a director the aggregate par value of which is not less than $1,000, or an equivalent interest . . . in any company which has control over such" national bank. A director owns an "equivalent interest" in a company which has control over a national bank when the director owns common or preferred stock in an amount equal to or greater than any of the following:

(i) aggregate par value of $1,000;
(ii) aggregate shareholder's equity of $1,000; or
(iii) aggregate fair market value of $1,000.

12 CFR 7.4210. Determination of the value of controlling company shares "may be based on the value of the stock on the date it was purchased or on the date the person became a director, whichever value is greater." *Id.*

The purpose of the stock ownership requirement of 12 U.S.C. 72 is to "assure that national bank directors have a financial stake in the operations of the bank." 45 Fed. Reg. 49,240 (1980). The extent of a director's financial stake in a bank may bear little relation to the par value of his/her stock but instead may be much more closely tied to the price at which the stock is bought and sold. In addition, since national bank shares may sell at prices which are several times higher than the par value of those shares, requiring directors to own shares with aggregate par values of $1,000 may prohibit qualified individuals from serving as directors.

No logical reason exists for allowing directors owning controlling company shares to rely on a different valuation system than directors owning national bank stock directly. Accordingly, it has been the OCC's position that it will not object when a director's qualifying shares consist of national bank common stock with an aggregate fair market value of $1,000 or more but an aggregate par value of below $1,000. Further, determination of the value of national bank stock may be based on the value of the stock on the date it was purchased or on the date the person became a director, whichever value is greater, as is the case for controlling company stock.

If one measures the value of the shares held by bank directors in the same manner in which one measures the value of holding company shares, the bank directors clearly hold an adequate number of shares. Not only is the aggregate fair market value of each director's shares at least $1,000, but the par value of those shares on the date of purchase was also at least $1,000. The OCC, therefore, will not object to the ownership by bank directors of qualifying shares with an aggregate par value of less than $1,000.

Elizabeth S. Malone
Attorney
Securities and Corporate
Practices Division

* * *

504 — May 18, 1990

This is in response to your letters of December 4 and 18, 1989, concerning the * * * (In Organization) ("the Bank") You provided additional legal background in letters dated March 28 and May 3, 1990, and in telephone conversations with Senior Attorney Christopher Manthey of this office.

In connection with your pending charter application, you requested confirmation that the Bank's proposal to pay certain referral fees will not violate federal law or OCC policy. We have concluded that payment of the proposed fees is permissible for national banks with trust powers, and therefore will not object to your proposal.

The Bank is a national bank in organization to be located in * * * and will be limited to trust activities. The Bank wishes to pay finder's fees to financial institutions and others who refer trust business to it. It is anticipated that finders will normally be small banks, registered investment advisors, financial planners, benefit consultants, independent insurance agents and brokers, certified public accountants, and attorneys. Some of the financial institutions with whom you have had discussions have indicated an interest to invest in the Bank. In most cases, this would be through the purchase of non-voting preferred stock by these institutions' parent holding companies. None of these investments will be large enough to qualify the Bank and the finder institutions as affiliates within the meaning of section 23A of the Federal Reserve Act, 12 U.S.C. 371c. The majority of the Bank's capital will come from individual investors.

The finder's fee structure is subject to change, but it is planned that the Bank will pay approximately 17 percent of the fees it receives on a given account to the finder for a term of five years, with a reduction to 9 - 10 percent in the succeeding five years.

Full disclosure of these fees will be made to customers. All fees will terminate with respect to any account if the account is closed, and in any event after a maximum of 10 years. The Bank will have no obligation to any finder to maintain or continue any account.

The payment of finder's fees in connection with the marketing of national bank trust services was addressed in Trust Interpretive Letter No. 78, March 4, 1987. This letter approved the payment of finder's or referral fees to other financial institutions by a sharing of the fee charged by the bank to which business is referred. The letter states that such fees must be reasonable under the facts and circumstances, and must be disclosed. It also cautioned that a fee splitting arrangement on an ongoing basis may not be reasonable under the facts and circumstances, and could give rise to a joint venture. In that case, the finder institutions would need to have trust powers.

As you noted, finder's fees must be high enough to be attractive to potential sources of referrals, yet not so high as to be financially detrimental to the Bank or create an appearance of profit sharing, which could

lead to the inference of a joint venture or partnership. In your opinion, the proposed fee structure balances these concerns, and is fair and reasonable under the circumstances.

These fees were derived by comparing referral fees paid in similar business situations, such as fees paid to commercial bank employees for the referral of matters to that bank's trust department, the fees paid to life insurance agents on the sale of life insurance policies, and referral fees paid by investment advisors and investment bankers. It was decided to spread payment of the fees over several years because making single, lump sum payments would place an undue financial burden on the Bank.

However, paying referral fees to finders for up to 10 years implicates the concern about joint ventures expressed in Trust Interpretative Letter No. 78. National banks are not permitted to be members of general partnerships or, by extension, joint ventures. *Merchants National Bank v. Wehrmann*, 202 U.S. 295 (1903).

The existence of a joint venture is determined by state law. Under * * * law, the payment of a share of profits does not by itself give rise to a joint venture. Rather, there must be "mutual control" over the enterprise before a joint venture may be found: "There must be not only a joint interest in the objects and purposes of the undertaking, but also a right, express or implied of each member of the joint venture to direct and control the conduct of the other." *Gainesville Carpet Mart* v. *First Federal Savings & Loan Association of Gainesville*, 121 Ga. App. 450, 174 S.E.2d 230, 233 (1970). *Accord, The First National Bank of Madison v. Vason*, 164 Ga. App. 309, 297 S.E.2d 85 (1982); *Anderson v. Southeastern Capital Corp.*, 148 Ga. App. 164, 251 S.E.2d 55 (1978). It does not appear to be relevant under * * * law whether referral fees are paid in a single payment or over a period of years.

According to your letters, the finders will not have trust powers, nor will they have a fiduciary relationship to customers or be parties to the referred accounts either as co-trustees or co-agents. No finders will be authorized to make any representations or engage in negotiations on behalf of the Bank. All promotional materials will make it clear that the only services being provided will be those provided by the Bank. Therefore, it does not appear that the element of mutual control required for a joint venture under * * * law will be present.

The Bank plans to establish tax-exempt collective investment funds, the interests or participations in which are to be offered solely to stock bonus, pension, or profit sharing plans qualifying under section 401 of the Internal Revenue Code of 1986, as amended. Some of these plans may be subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). A complete analysis of ERISA issues is beyond the scope of this letter. However, the Bank should be cognizant of the provisions concerning prohibited transactions by fiduciaries contained in section 406 of ERISA, 29 U.S.C. 1106, and take steps to ensure that payment of the proposed referral fees does not violate these requirements.

In particular, section 406(b)(3) of ERISA, 29 U.S.C. 1106(b)(3), provides that a fiduciary with respect to a plan shall not "receive any consideration for his own personal account from any party dealing with such plan in connection with a transaction involving the assets of the plan." Although this section by its terms would apply only to a fiduciary who receives a referral fee, not the payor, some courts have imposed aiding-and-abetting liability on other parties. *See, e.g., Whitfield v. Lindemann*, 853 F.2d 1298 (5th Cir. 1988); *Lowen v. Tower Asset Management, Inc.*, 829 F.2d 1209 (2d Cir. 1987). In addition, section 404(a)(1)(A) of ERISA, 29 U.S.C. 1104(a)(1)(A), requires a fiduciary to discharge his duties solely in the interests of plan participants and beneficiaries. If the Bank is an ERISA fiduciary at the time it pays a finder's fee, payment of the fee could be construed as an action taken in the Bank's own interest rather than in the interest of plan participants and beneficiaries.

According to the information you provided, the Bank is aware of these restrictions and intends to conduct its transactions so as not to run afoul of ERISA requirements:

1. The compensation arrangement will be agreed upon prior to the beginning of the fiduciary relationship between the participating plan and the Bank.

2. The Bank does not contemplate payment of finder's fees to banks that have trust powers. In addition, the Bank will undertake rigorous screening of finders prior to payment of any referral fees to ensure that they are not plan fiduciaries under ERISA.

3. The finder's fees will be paid by the Bank or the employer sponsoring the participating plan, and will not be taken from plan assets.

Based upon the information you have presented, it is my opinion that payment of finder's fees on the basis

described above would be permissible for national banks with trust powers. I trust that this is fully responsive to your inquiry.

Dean E. Miller
Senior Advisor for
Fiduciary Responsibilities

* * *

505 — April 13, 1990

This is in response to your letter dated September 18, 1989 in which you asked:

(i) whether 12 U.S.C. 85 and 86 apply to federal branches of foreign banks, and

(ii) whether, therefore 12 U.S.C. 85 would permit each federal branch of a foreign bank to charge or receive interest according to the laws of the state in which the federal branch has its office.

I understand that your firm represents * * *, an * * * corporation which operates federal branches in * * *, * * *, * * * and * * * and representative offices in * * * and * * *. In answer to your questions, in my opinion, 12 U.S.C. 85 and 86 ("sections 85 and 86") apply to federal branches of foreign banks, and section 85 permits each federal branch of a foreign bank to charge interest according to the laws of the state where the federal branch has its office.

As you mention in your letter, the statute governing the operation of federal branches of foreign banks ("federal branches") is the International Banking Act of 1978 ("IBA" or the "Statute"). The general rule under the IBA is that federal branches have the same rights and privileges and are subject to the same limitations as a national bank at the same location. 12 U.S.C. 3102(b). The regulations promulgated subject to the IBA cite the same general rule. *See* 12 CFR 28.4. Federal branches are treated differently from national banks only if there are contrary provisions in the Statute or where the OCC has issued "rules, regulations, or orders" to the effect that federal branches are to be treated differently. *See* 12 U.S.C. 3102(b). There are no provisions in the Statute which suggest that sections 85 and 86 should not apply to federal branches, nor has the OCC addressed this matter in any regulation or ruling; therefore, the general rule should apply and a federal branch should have the rights and privileges of a national bank at the same location. *See* 12 U.S.C. 3102(b).

Sections 85 and 86 are a part of a National Bank Act and therefore apply to national banks. Section 85 provides that a national bank may charge interest according to the laws of the state where the national bank is located. *See* 12 U.S.C. 85. "Located" has been interpreted as the place designated in the national bank's organizational certificate or in places where it has established authorized branches. *See Marquette National Bank of Minneapolis v. First of Omaha Service Corp.*, 439 U.S. 299, 309 (fn. 21) (1978). *See also* OCC Interpretive Letter No. 325 (January 17, 1985), reprinted in Fed. Banking L. Rep. (CCH) ¶ 85,496. Under the *Marquette* ruling, section 85 has been interpreted to mean that a national bank located in one state may "export" the interest rate of the state in which the national bank is located when making loans to residents of another state. Therefore, as applied to a federal branch, section 85 permits such a branch to charge interest according to the laws of the state where the branch is located whether or not the borrower is a resident of the state where the federal branch is located. Section 86 sets forth the penalty for charging interest in an amount greater than that permitted by section 85. Section 86 also applies to federal branches in the same way that it applies to national banks.

The legislative history of the IBA supports the notion that sections 85 and 86 apply to federal branches and the application of section 85 as described above. In general, the IBA seeks to establish parity between foreign banks operating as federal branches and U.S. banks. *See* S. Rep. No. 95-1073, 95th Cong., 2d Sess. 2, *reprinted in* 1978 U.S. Code Cong. and Admin. News 1422 ("Senate Report"). Apply section 85 in the manner suggested herein would appear to provide an advantage to federal branches because if applied to federal branches as it is applied to national banks, section 85 would permit each federal branch to make loans with a different possible ceiling interest rate depending on the laws of the state where the federal branch is located. Although national banks can also charge interest according to the law of the state where they are located, since they are not permitted to branch across state lines, they can take advantage of a more favorable interest rate in another state only if, for example, the bank's holding company establishes a bank in a state with a more favorable potential ceiling interest rate than that of the state where the original bank was located. Such an advantage was, however, anticipated and permitted by Congress. Earlier versions of the IBA would have prohibited interstate branching by federal branches until such branching was permitted for national banks. *See* 122 Cong. Rec. 24393 (1976) (statement of Rep. Del Clawson) and 123 Cong. Rec. 24393 (1977) (statement of Rep. St Germain regarding section 5). Opponents of earlier versions of the IBA complained that prohibitions on interstate branching would

ed that foreign banks would be located in New York or California only. *See* Senate Report at 1429. Because of these diverging opinions, a compromise was reached on the interstate branching issue. Foreign banks were permitted to branch interstate but their deposit-taking ability (which was perceived to be the most important advantage) was limited. Except for the branch chosen as "home" state, federal branches could accept only those deposits as could be accepted by Edge Act corporations. *See* Senate Report at 1431. The making of commercial loans by federal branches "at locations throughout the country" was granted to federal branches even though this privilege "is not extended United States Banks under United States law" . . . "since U.S. banks have many other ways of soliciting and competing for domestic loan business." *See* Senate Report at 1431. *See also* statement of Senator Brooke indicating that foreign banks under the IBA will not be restricted in terms of their interstate lending activities. 124 Cong. Rec. 26131 (1978). Therefore, the fact that federal branches have an advantage in this regard over national banks is not a bar to applying section 85 such that federal branches may charge interest based on the laws of the state where the federal branch is located.

Based on the plain meaning of the IBA and its implementing regulation, and based on a review of the legislative history of the IBA, in my opinion, your conclusions are correct that sections 85 and 86 apply to federal branches of foreign banks, and that, therefore, section 85 permits a federal branch to charge interest according to the laws of the state where the branch office is located.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

506 — October 31, 1989

This letter is in response to your letter dated October 31, 1989, in which you, as Counsel for the Bank Advisory Committee for Mexico, request the views of the Office of the Comptroller of the Currency ("OCC") on certain national bank regulatory issues related to the 1989-92 Financing Package for Mexico ("Financing Package"). Specifically, you request our views on the application of national bank investment and lending limits, 12 U.S.C. 24(Seventh) and 84, to participation by national banks in various aspects of the Financing Package.

The Financing Package

The following description of the Financing Package, based upon the information you have supplied, is limited to those features pertaining to the regulatory issues upon which you have requested our views. It is not intended to be a complete summary of the Financing Package.

Under Part I of the Financing Package, each lender may commit any or all of its eligible debt to one or more of the debt and debt-service reduction options. These options consist of exchanges of eligible debt for bonds, as more fully described below. Under Part II of the Financing Package, each lender that does not commit all of its eligible debt to the debt and debt-service reduction options is requested to make a new money commitment equal to 25 percent (over the period 1989 through 1992) of its eligible debt not committed to the debt and debt-service reduction options. "Eligible debt" means the approximately U.S. $52.7 billion of debt owed to the lending banks under Mexico's 1983 and 1984 Credit Agreements and 1987 Multi-Facility Agreement and the 52 Restructure and 35 New Restructure Agreements for Mexico and other Mexican Public Sector Obligors.

I. Debt and Debt-Service Reduction Options: Exchanges for Bonds

Under the debt and debt-service reduction options, eligible debt, which includes debt both of the United Mexican States ("UMS") and of various other separate public sector obligors, will be exchanged for bonds to be issued by UMS. Under the debt reduction option, eligible debt will be exchanged for discount bonds issued by UMS in an aggregate principal amount equal to 65 percent of the aggregate principal amount of the eligible debt exchanged for such bonds. Discount bonds denominated in U.S. dollars will bear interest at a floating rate equal to 13/16 percent over the six-month LIBOR rate for each interest period. Discount bonds in other currencies will have comparable yields appropriate for their currencies.

Eligible debt committed to the debt-service reduction option will be exchanged for par bonds issued by UMS in an aggregate principal amount equal to 100 percent of the aggregate principal amount of the eligible debt exchanged for such bonds. Par bonds denominated in U.S. dollars will bear interest at a fixed rate equal to 6.25 percent per annum. Par bonds in other currencies will have comparable yields appropriate for their currencies.

In addition, both the discount bonds and the par bonds will each have the following terms. Repayment of prin-

cipal will be in a single installment due on December 31, 2019. The bonds will be issued in U.S. dollars and, for lenders whose home country currency is not U.S. dollars, in up to nine other currencies. Mexico will covenant that (a) neither the bonds nor the eligible debt exchanged for the bonds will be considered as part of a base amount with respect to any future requests by Mexico for new money and (b) the bonds will not be subject to any future restructuring requests.

Payment in full of the principal amount of the bonds at their maturity on December 31, 2019, will be secured by a pledge by Mexico of U.S. Treasury zero-coupon obligations and other zero-coupon obligations expressly backed by the full faith and credit of the United States government (or comparable collateral in other currencies) in a face amount equal to the principal amount of the bonds and with a maturity date of December 31, 2019. However, notwithstanding any event of default or acceleration of the bonds, holders of bonds will not have recourse to this collateral until December 31, 2019.

Payment of interest on the bonds will be secured by a pledge by Mexico of cash or permitted investment instruments in an amount equal to (for bonds denominated in U.S. dollars) up to 24 months (but in no event less than 18 months) of interest (calculated, in the case of the discount bonds in U.S. dollars, at an assumed constant interest rate of 10 percent per annum). To the extent that the resouces available for the collateral for principal and interest are insufficient to collateralize a full 24 months of interest on the bonds denominated in U.S. dollars, the amount of interest to be collateralized would be reduced, as necessary, to a minimum of 18 months, in a manner that would result in the same period of interest coverage for both the discount bonds and par bonds in U.S. dollars. Although the number of months of interest coverage may vary from currency to currency, collateral of comparable value will be provided for bonds in all currencies (other than for a limited amount of bonds in Japanese yen).

It is a condition to the exchange of eligible debt for discount and par bonds that U.S. $7 billion be made available by Mexico to collateralize the principal of, and a portion of the interest on, the discount and par bonds, as described above. It is expected that these funds will be made available by Mexico from funds borrowed from the International Monetary Fund, the World Bank, and the Export-Import Bank of Japan (the "Official Sources"), as well as from Mexico's own resources. It is expected that at least U.S. $5.8 billion (including U.S. $4.5 billion of funds from the Official Sources and U.S. $1.3 billion to be provided by Mexico from its own resources) will be made available for the purchase of collateral on or before the exchange date, with the balance expected to be made available no later than December 31, 1992. All collateral for principal will be fully funded on the exchange date.

Pending delivery of the remaining funds during the 1989 to 1992 period in accordance with the drawdown schedules determined by the Official Sources, the shortfall in funded collateral (up to U.S. $1.2 billion) will be covered by committed amounts under irrevocable standby letters of credit to be issued, for the account of Mexico, by a group of approximately 15 commercial banks (including one or more national banks) in favor of the collateral agents for the discount and par bonds (the "Commercial Bank Bridge Facility"). The Commercial Bank Bridge Facility will be allocated entirely to collateral for interest on the discount and par bonds denominated in U.S. dollars.

II. New Money Options

Each Lender that does not commit all of its eligible debt to the debt and debt-service reduction options is requested to make a new money commitment equal to 25 percent (7 percent for 1989 and 6 percent for each of years 1990-92) of its eligible debt not committed to the debt and debt-service reduction options.

Any resulting new money commitment may be allocated by such lender among one or more of the following new money options (subject to specified limitations for some options): (1) New Money Credit Agreement, a syndicated loan to UMS; (2) New Money Bonds, bonds to be issued by UMS; (3) Onlending Facility, amounts initially lent to a Mexican trust to be onlent by lenders to Mexican public sector borrowers; and (4) Medium-Term Trade Credit Facility, amounts initially lent to a Mexican trust to be used by lenders to finance specified eligible trade credits to Mexican public and private sector borrowers.

III. Additional Features of the Discount, Par, and New Money Bonds

The discount bonds, the par bonds, and the new money bonds each will be issued in registered form and in minimum denomination of U.S. $250,000 (or, in the case of discount and par bonds, a comparable or lesser amount in other currencies to be agreed) or such lesser amount equal to a lender's entire commitment. The bonds will be negotiable instruments under Article 8 of the Uniform Commercial Code (Investment Securities) as in effect in New York. Payments on the bonds will be made through paying agents located in New York City and in major financial centers outside of the United States. Application will be made to list the discount bonds, the par bonds and the new money bonds on the Luxembourg Stock Exchange.

The bonds will not be registered under the Securities Act of 1933 but issuance and transfer of the bonds will be subject to compliance with applicable securities and commodities laws of various countries, including the U.S. securities and commodities laws, in accordance with procedures to be confirmed. In general, the bonds will be issued under procedures designed to comply with Release No. 33-4708 (July 9, 1964) (now International Series Release No. 32) under the Securities Act of 1933. Bonds will be issued to U.S. banks on a private placement basis structured to be exempt from the registration requirements of the Securities Act of 1933 under section 4(2) thereof as a transaction not involving a public offering. Bonds will be issued to non-U.S. persons (including foreign agencies and branches of U.S. banks) under normal Euromarket procedures reasonably designed to preclude distribution or redistribution of such bonds in the United States or to U.S. persons.

It is expected that the documentation to implement the Financial Package will be signed in the fourth quarter of 1989 and that the closing of the transactions contemplated by the Financing Package (including the exchange of eligible debt for discount and par bonds and the issuance of new money bonds and first borrowing under the new money agreements) will occur simultaneously in the first quarter of 1990.

Discussion

You have requested our views on the application of the national bank lending limit, 12 U.S.C. 84, to various aspects of the Financing Package. You have also requested our views on the treatment of the discount bonds and par bonds as investment securities by national banks under 12 U.S.C. 24(Seventh).

Issues under the national bank lending limits arise primarily from the effect of participation in the exchange of eligible debt for discount bonds and/or par bonds under the debt and debt-service reduction options. These exchanges involve the issuance of UMS bonds in exchange for existing debt obligations of UMS and other public sector borrowers (the eligible debt). As a result of the substitution of UMS as a single obligor for previously separate borrowers, a national bank that participates in these exchanges may receive bonds that — either in themselves or in combination with other debts of UMS to that bank, and after adjustments due to other aspects of the Financing Package as discussed below — may exceed the bank's lending limit on loans to one obligor under 12 U.S.C. 84, or its investment limit on investment obligations of one obligor under 12 U.S.C. 24(Seventh) (if the bonds are treated as investment securities, as discussed below), or the combined limits thereof.

After careful study of the terms and circumstances of the Financing Package, we are of the view that, when loans are restructured and come under one obligor (as here under UMS) as a part of a qualifying sovereign debt restructuring, it is inappropriate to cause the loans to be combined under the lending limit of the one obligor for purposes of 12 U.S.C. 84. We reach this conclusion because the loans were already in existence for other, separate public sector borrowers and, at the time the loans were originally made, qualified as loans to a separate borrower under 12 CFR 32.5(d). The loans are merely being rearranged and placed under the central government or some other single obligor to facilitate debt management and restructuring. In order to deal with this change in circumstances, we believe the loans should continue to be included under the lending limit of their original obligors and not be combined. We also believe this treatment is appropriate for loans to a foreign government, its agencies and instrumentalities only when that country's external debt has been the subject of a multilateral and comprehensive restructuring which includes features of debt or debt-service reduction.

Accordingly, the OCC plans to promulgate an amendment to its lending limit regulation in the near future to codify this interpretation covering the treatment of such loan aggregation in sovereign restructurings. The rule would be effective upon issuance which will occur before December 11, 1989.

Under this rule, when there has been a qualifying restructuring of loans and other extensions of credit to a foreign government, its agencies, and instrumentalities (i.e., public-sector obligors) in which loans previously outstanding to separate public-sector obligors which qualified for a separate lending limit under 12 CFR 32.5(d) (the "means and purpose test") are consolidated under a central obligor, typically the central government such as UMS here ("aggregated loans"), such aggregated loans will not be considered as obligations of the central obligor/government for purposes of the lending limit. They will continue to be included in the lending limit of the original public-sector obligor. However, previous debt of the central government, including any other debt which was previously attributed to the central government through the means and purpose test, will continue to be under the government's lending limit (i.e., the regular 15 percent limit), even if it is included in the restructuring. Only the aggregated loans are excluded from the central government's individual obligor limit.

Of course, the amount of loans outstanding, for lending limit purposes, to the central government or the original obligors may be reduced by other parts of a restructuring package. For example, in the Financing

Package for Mexico, treatment of the discount or par bonds as investment securities or discharge of debt under 12 CFR 32.106, as discussed below, would result in a reduction of loans outstanding for lending limit purposes, in accordance with traditional lending limit interpretations.

In addition, the rule would impose an overall lending limit of 50 percent of a bank's capital and surplus for all loans to the central government, its agencies, instrumentalities, and other public sector borrowers, including restructured debt, taken in the aggregate. This 50 percent overall limit was included in the recently published proposed changes in the OCC's lending limit regulation to apply to loans to foreign governments generally. *See* 54 Fed. Reg. 43378 (October 24, 1989). The rule will make the 50 percent overall limit immediately effective for loans to a foreign government specifically in the context of sovereign restructurings. This will be done in conjunction with the previously explained treatment of not combining the restructured loans under the lending limit that is applicable to the central government.

You have also requested our views on several other lending and investment limit issues raised in the Financing Package.

On several prior occasions, the OCC has stated that it would not consider a national bank to be in violation of 12 U.S.C. 24(Seventh) or 84 merely by virtue of the substitution of a centralized obligor in an exchange program for existing debt. In the circumstances of the Financing Package this issue should not arise under section 84 because, as discussed above, all prior loans are not automatically to be combined. Nevertheless, to the extent it does arise under either section 84 or section 24(Seventh), we believe the same rationale would apply. Accordingly, the OCC would not consider a national bank participant in the exchanges for discount bonds and/or par bonds to be in violation of 12 U.S.C. 24(Seventh) or 84 (where respectively applicable) if, solely as a result of the exchange and receipt of bonds, such bank holds total obligations of UMS in excess of its legal limits under each statute. At most, such national bank would be placed in a "nonconforming" situation which would limit the extent to which it could make subsequent new extensions, under sections 24(Seventh) or 84 respectively, to UMS.

A bank participating in these exchanges as part of the Financing Package may decide to hold the discount and/or par bonds received either under its lending authority (both because they represent an extension of the preexisting lending relationship and because the bonds are received as part of a negotiated process between the banks as lenders and UMS as issuer), or under its investment authority (if appropriate, as discussed below). A bank participating in the exchanges may hold those bonds received in the exchange under either authority or both simultaneously, but each bank must make a one-time election of how it is going to allocate the bonds received in the exchange at the time of the exchange. Bonds that are held by a bank under its lending authority would be subject to the limits and requirements of 12 U.S.C. 84, including nonconforming treatment under that limit if in excess of the bank's limit. Those bonds received by a bank in the exchanges and treated by that bank as investment securities would be subject to the limits and requirements of 12 U.S.C. 24(Seventh), including nonconforming treatment. Thus, amounts received in excess of the bank's investment limit under section 24(Seventh) would be accorded nonconforming status under that limit.

Thus, banks may hold those discount and/or par bonds received in the exchanges under the debt and debt-service reduction options under either their lending authority or investment authority (if appropriate, as discussed below). Similarly, banks may sell, purchase, and trade these bonds in the secondary market under either their lending or investment authority, subject to their respective limits. Banks may allocate bonds acquired in the secondary market under either their lending or investment authority (if appropriate), subject to their respective limits, in a manner different from the one-time allocation of bonds originally received in the exchange.

The amount of UMS bonds received in the exchange which a bank treats as loans would continue to be considered loans under the lending limit of the original obligors on the eligible debt in their respective proportion of the eligible debt exchanged. The amount representing the discount on the discount bonds is addressed below in the discussion of 12 CFR 32.106.

Those UMS bonds received in the exchange which a bank treats as investment securities would be considered obligations of UMS and subject to the limits for investment securities at the face value of the bonds. Because the limits for investment securities under 12 U.S.C. 24(Seventh) are separate from the lending limits under 12 U.S.C. 84, *see* 12 CFR 32.111, such bonds would reduce the amount of loans outstanding to UMS for lending limit purposes by the face value of the bonds that are held as investment securities, up to a maximum of five percent (5 percent) of a bank's capital and surplus. Thus, no matter how many bonds a bank treats as investment securities, the reduction in lending limit exposure which results from transferring what had been under the lending limit into investment securities subject to the investment securities limit cannot exceed

five percent (5 percent) of the bank's capital and surplus corresponding to the investment securities limit under 12 CFR 1.7(b). (The 5 percent investment securities limit is discussed below.) The amount outstanding to separate original public sector borrowers (other than UMS) under their separate lending limits will not be reduced for lending limit purposes, until the bonds are paid off or sold. The amount representing the discount on the discount bonds should be treated separately in the manner addressed below in the discussion of 12 CFR 32.106. Moreover, any bonds acquired in the secondary market after the exchange should be considered obligations of UMS for either investment limit or lending limit purposes.

With respect to a determination that the bonds qualify as investment securities, particularly with respect to the acquisition of bonds subsequent to the exchange, we believe the factors you have identified and the other characteristics and circumstances of these bonds may be sufficient to support a determination by a bank that these bonds qualify as Type III investment securities. *See* 12 CFR 1.3(b), 1.5, 1.8.

It is the responsibility of each bank to make this determination in light of the circumstances prevailing at the time of its acquisition of any bonds. At the present time at least, such a determination would have to be based predominantly upon estimates believed to be reliable and anticipated future developments. *See* 12 CFR 1.5(b). For this reason, a bank's holding of these bonds as investment securities will be subject to the limitations of 12 CFR 1.7(b). Accordingly, other than in those circumstances in which "nonconforming" treatment would apply, a bank's holding of these bonds and any other securities subject to the limitations of 12 CFR 1.5(b) and 1.7(b) may not exceed in the aggregate five percent of the bank's capital and surplus.

It is also important to note the extent to which a national bank may acquire and hold New Money Bonds. Based upon the information currently available, it does not appear these bonds presently would qualify as investment securities under 12 U.S.C. 24(Seventh). However, we believe that a national bank may acquire and hold New Money Bonds as part of its participation in the Financing Package, under its lending authority and subject to the limitations of 12 U.S.C. 84, on the basis that the banks would be acquiring these bonds as part of a negotiated process between themselves as lenders and UMS as the borrower and issuer. The OCC has taken this position in the past with respect to other bonds acquired in similar direct purchases between bank and issuer, and we believe it is equally applicable here. Similarly, until such time as the New Money Bonds may qualify as investment securities, national banks may purchase New Money Bonds in the secondary market under their lending authority and subject to the limits of section 84, provided that such purchases comply with the requirements for prudent exercise of bank lending authority, such as independent credit analysis and maintenance of credit information. *See, e.g.*, Banking Circular 181 (Revised, August 4, 1984). Any New Money Bonds held by a bank must be included within the bank's lending limit to UMS.

You have also requested confirmation that the amount of eligible debt which will be discharged in the exchange for discount bonds would not be included within either the bank's investment or lending limit. In the proposed exchange for discount bonds, a bank would receive bonds with a principal amount equal to 65 percent of the principal amount of the eligible debt exchanged. The remaining 35 percent would, thus, be discharged. With respect to the investment securities limit, par or face value is the appropriate basis for determining the amount of the security. *See* 12 CFR 1.7(a).

Under OCC interpretation of the lending limit, loans that are charged off or otherwise discharged generally continue to be included within the lending limit. However, loans "which have become unenforceable by reason of discharge in bankruptcy or are no longer legally enforceable for other reasons are not" considered loans under the lending limit. 12 CFR 32.106. We believe the requirements of section 32.106 are met in a discharge of debt in a comprehensive restructuring of sovereign debt involving negotiation with a large number of banks. Accordingly, these discharged amounts of eligible debt would no longer be included within a bank's lending limit for UMS, in cases where the debt was attributed to UMS for lending limit purposes, or for the original separate public sector obligors, in cases where the debt was under that obligor's lending limit. While such discharge may allow a bank to lend additional funds under its legal lending limit, we want to emphasize that the bank is not thereby relieved of the responsibility to exercise prudent lending judgement in any future extensions of credit.

Finally, you have requested confirmation that a bank's position under its lending or investment limits would not be determined as of the time of its commitment to issue a standby letter of credit under the Commercial Bank Bridge Facility or its entering agreements to exchange eligible debt for bonds, but rather as of the later time of the closing when the various elements of the Financing Package will occur. In particular, you request confirmation that the commitment to issue a standby letter of credit for the Commercial Bank Bridge Facility would not itself be a contractual commitment to advance funds, and thus a loan for purposes of the lending limit

We concur with your opinion with respect to both the commitments to issue letters of credit for the Commercial Bank Bridge Facility and the agreements to exchange eligible debt. We reach this conclusion in light of the circumstances of the Financing Package — in particular, (1) the number of conditions which must be met after the commitment and agreements and prior to the transaction in order for the commitments and agreements to come into effect and (2) the fact that various parts of the transaction interrelate such that commitments which may increase lending exposure will come into effect along with other options which may reduce exposure.

Conclusion

In responding to your inquiry with respect to the application of the legal lending and investment limits, the OCC is not taking any position on bank participation in the Financing Package as a whole or any of its specific options, which is the responsibility of each bank's management. We emphasize that any decision by a bank on its participation must also be consistent with safe and sound banking practice, and the OCC will continue to monitor total bank exposure and concentrations for supervisory purposes. We also note that any material alterations in the Financing Package and its implementation or other material changes and developments regarding the Financing Package may affect the OCC's analysis of the Financing Package in the future.

Robert J. Herrmann
Senior Deputy Comptroller
for Bank Supervision Policy

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507 — May 5, 1990

This letter is in response to the notification by Sovran Bank, N.A., ("Bank") to the Office of the Comptroller of the Currency ("OCC") of the Bank's intent to perform new activities in its wholly owned operating subsidiary, Sovran Futures Corporation ("Subsidiary"). The Subsidiary is a futures commission merchant registered with the Commodity Futures Trading Commission ("CFTC").

The Subsidiary was authorized by the OCC on July 30, 1984, to execute customer transactions in all types of financial and currency contracts, gold and silver contracts, stock index contracts, and related options. The OCC further authorized the Subsidiary, by letter dated January 7, 1986, to execute orders for agricultural and metals futures contracts provided the execution of such contracts was limited to hedging transactions in connection with loans to Bank customers

At the present time, the Subsidiary is not a member of a commodity exchange and does not itself provide clearing services to customers; it maintains an omnibus account relationship with an established exchange clearing member in lieu of direct membership. The Subsidiary does not take positions in the market for its own account. However, among the customers for whom the Subsidiary executes transactions are the Bank's holding company and its subsidiaries (including the Bank). The Bank trades only in financial futures for the purpose of hedging risks involved in other financial services in which the Bank engages.

The Bank requests authorization to expand the Subsidiary's activities to include providing investment advice to its customers and to charge a separate fee for its advisory services, which in certain instances may be based on performance. If required in connection with its advisory activities, the Subsidiary will register as a commodity trading adviser with the CFTC. The Bank also requests authorization for the Subsidiary to provide clearing services and to become a clearing member of commodities exchanges. The Bank does not plan to have the Subsidiary become immediately active in these additional activities. In the event the Subsidiary determines to seek exchange membership(s), the Bank will inform the OCC in advance.

The OCC has previously found these activities to be within the legally authorized powers of national banks and has approved them for national bank subsidiaries. *See, e.g.*, OCC Letter No. 422 (April 11, 1988), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,646 (clearing; exchange membership); OCC Letter No. 384 (May 19, 1987), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,608 (same); OCC Letter No. 372 (November 7, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,542 (same); OCC Letter No. 380 (December 29, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,604 (execution; clearance; exchange membership); OCC Letter No. 365 (August 11, 1986), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,535 (advice).

The Bank also proposes to expand the Subsidiary's activities to include the execution of transactions, as agent for all types of customers regardless of a credit relationship with the Bank, in futures contracts and related options on all financial and nonfinancial commodities traded on the various commodity exchanges. These would include customer orders involving agricultural, metals, oil, energy, wood, and "soft" commodities (such as cocoa, coffee, cotton, orange juice, and sugar) futures contracts, including options on

these futures, and such other instruments as may be offered for purchase and sale by the various commodity exchanges

The OCC has determined that these activities are within the powers of national banks and their operating subsidiaries under 12 U S C. 24(Seventh) because acting as an FCM or brokering futures and options as agent for customers is part of the "business of banking" authorized under the statute. In our opinion, this authority exists, regardless of the underlying commodity upon which the futures are based, because the future or option is itself a financial instrument. In a recent operating subsidiary approval letter, the OCC set forth the analysis supporting this determination. *See* OCC Letter No. 494 (December 20, 1989), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 83,083.

Accordingly, pursuant to 12 CFR 5.34, the OCC hereby authorizes the Bank to engage, through the Subsidiary, in the activities previously described, subject to the following conditions:

(1) The Subsidiary will not join any exchange or clearing association that requires the Bank or any other subsidiary of the Bank to guarantee or otherwise become liable for trades executed and/or cleared by the Subsidiary.

(2) Unless well secured as described below, the Bank's direct and indirect investment in, loans and other extensions of credit to and purchase of assets from the Subsidiary will not exceed in the aggregate an amount equal to fifteen (15) percent of the Bank's capital and surplus at the time of the investment or loan of any funds or the purchase of any assets. Any investments, loans and other extensions of credit, or purchases of assets in aggregate amounts exceeding the 15 percent limit must be fully secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount by which the investment, loan, or purchase of assets exceeds the 15 percent limit; provided, however, that in no case will the Bank's combined secured and unsecured investment in, loans and other extensions of credit to, and purchases of assets from the Subsidiary exceed in the aggregate an amount equal to twenty-five (25) percent of the Bank's capital and surplus. For the purposes of these limitations, the Bank's investment in the Subsidiary is considered to be unsecured and subject to the basic 15 percent limit.

Finally, the Bank and the Subsidiary will be expected to comply with the laws and regulations applicable to the manner in which these activities are conducted and to comply with any future developments in OCC policy and guidance to national banks in this area The Bank and Subsidiary will also be expected to conduct these activities in a prudent manner, consistent with safe and sound banking practice and subject to the supervisory authority of, and conditions imposed by, the OCC.

J. Michael Shepherd
Senior Deputy Comptroller
for Corporate and Economic Programs

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508 — April 6, 1990

This letter responds to the notice filed on behalf of * * * ("Bank") of its intention to acquire * * * ("/op sub"), as an operating subsidiary ("Subsidiary"). The Subsidiary will engage in real estate advisory activities. On the basis of our understanding of the Bank's proposal as set forth below, the Bank may proceed with the proposed acquisition.

Op sub is a holding company that owns two subsidiary corporations: (1) * * * ("MREA"), a registered investment advisor and provider of real estate investment advisory services; and, (2) * * * ("MPM"), a provider of property management services. You explained in conversations with OCC staff that MPM's activities have ceased and will not be renewed following the Bank's acquisition of op sub. With the cessation of this activity, neither * * * nor MREA will provide real estate management services either directly or indirectly through the contracting for such services as a principal with third party managers. The Bank's proposal further contemplates that, with the acquisition of op sub, * * * ("REIM"), another real estate investment advisory firm presently owned by the Bank's parent holding company, will be contributed to the Bank and merged into MREA. Following completion of this merger, the resulting subsidiary, * * *op sub, will conduct operations from offices located in * * *, * * *, * * *, and * * *.

This operations of * * */op sub will entail the provision of the following services to clients:

(1) the provision of general real estate investment advice to clients;

(2) the provision of advice to clients relating to investments in particular parcels of real estate; and,

(3) in a limited number of instances, functioning as a nondiscretionary agent on behalf of clients in

executing documents necessary for real estate conveyance or for the obtaining of real estate management services.

Thus, the proposal will not involve the provision of real estate management services by * * */op sub either directly or indirectly through contract as a principal with third party managers.

With regard to the provision of general real estate advisory services by * * */op sub the OCC has viewed such service as being part of the business of banking and thus permissible for national banks and their subsidiaries pursuant to 12 U.S.C. 24(7). *See* OCC Letter No. 389 (July 7, 1987), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,613.

The provision of investment advice relating to particular real estate parcels has also been viewed by the OCC as being a permissible national banking activity within the scope of incidental banking powers in section 24(7). Specifically, the following services have been found to be permissible:

(1) identifying and evaluating proposed real estate investments;

(2) making specific investment recommendations to a client with respect to the investment in, or disposal of, individual real estate assets;

(3) providing accounting to clients relating to the investment performance of their portfolios; and,

(4) collecting a fee based on the fair market value of a client's investment portfolio.

Insofar as identifying and evaluating proposed real estate investments for clients is concerned, you have also clarified that * * */ob sub will limit its involvement to that of a "finder" as that term is described in Interpretive Ruling 7.7200, 12 CFR 7.7200. That ruling, in context, provides that in circumstances in which a national bank may not be authorized to act as agent, it may nonetheless act as a finder where the bank's activities are limited to introducing the buyer and seller and where it takes no part in negotiating the transaction itself. Outside of a fiduciary context, the OCC has never found national banks to be authorized to act as agent in the purchase or sale of real estate for third parties. Therefore, the finder rule is applicable to the instant proposal, and pursuant to it, the proposed activity of * * */op sub is permissible as long as the proposed subisidary does not involve itself in any manner in the negotiation of the terms of a transaction.

With regard to the execution of documents by * * */op sub on behalf of its clients as agent, you have indicated that this activity will occur in instances where clients cannot be present to execute conveyance documents or contracts for the employment of real estate managers which the clients have previously negotiated. With respect to third party managers, you have asserted that the proposed subsidiary's activity again would be consistent with the finder rule, i.e., confined to locating potential managers for clients. The subsidiary will not be involved in any negotiation of terms under which such third parties would provide management services. You have asserted that this incidental service is necessary if MREA is to successfully compete with other advisory firms that offer comparable service.

With respect to this proposed activity, we will interpose no objection subject to the following conditions:

(1) * * */ob sub will execute documents for its clients only in a non-discretionary agent's capacity that is disclosed in writing in those documents which it will execute; such disclosure will indicate that * * */ob sub in so functioning as an agent, does not in any manner assume liability as a principal in those transactions to which the documents pertain;

(2) * * */ob sub will execute documents only in those instances in which it has received prior written authorization from its clients to so act; such authorizations will incorporate all terms of a particular transaction that have been previously negotiated by a client; and

(3) such activity will not in any manner involve * * */op sub in the negotiation, or re-negotiation, of terms of any client's transaction.

Subject to the understandings and conditions expressed in this letter, the Bank may proceed with its proposal as set forth above. Following the Bank's acquisition of the proposed subsidiary, it is expected that the subsidiary's operations will be conducted in compliance with the provisions of 12 U.S.C. 1972 and, to the extent that the subsidiary's services may be provided to fiduciary customers of the Bank, in conformity with fiduciary principles governing employment of affiliates for the purpose of providing services to such customers.

Stephen R. Steinbrink
Deputy Comptroller
Multinational Banking

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90-2 — March 26, 1990

This responds to your recent letter in which you request a "no objection" response from this office regarding the use of an advertisement "Display Center" by Merchants National Bank & Trust Company of Indianapolis ("Bank"). The Bank proposes to place a Display Center in each of its forty-four branches to advertise the basic terms of its loan and deposit products.

You describe the Bank's Display Center in your letter as a large wooden standard standing approximately six feet tall and six feet wide and jointed in the middle to create two three-foot wide halves. One half of the Display Center lists various deposit products' names and their corresponding annual simple interest rates and annual yields ("Deposit Side"). The statements "Time deposits are subject to substantial interest penalties for ealry withdrawal" and "Member FDIC" are located immediately below this information. The lower portion of the Deposit Side contains built-in pockets designed to hold brochures that describe the Bank's deposit products and relevant rules and regulations governing those product, as well as applicable regulatory disclosures.

The other half of the Display Center lists various loan products' names and their corresponding fixed and variable annual percentage rates ("Loan Side"). The statement "For terms of products of interest to you, please read brochures below" and The Equal Housing Lender logo are located immediately below the product rate information. The lower portion of the Loan Side also contains built-in pockets designed to hold brochures that describe the terms and legally required disclosures pertinent to each loan product. You state that the rate quotations for both the Deposit Side and Loan Side are electronically controlled and are updated on a daily basis.

When advertising its rate of interest paid on deposits, a national bank must comply with the requirements set out in Regulation Q, 12 CFR 217.6. As your letter points out, Regulation Q requires any advertisement relating to deposit interest to accurately reflect only authorized percentage yields. In addition, advertisements relating to time deposits must include "clear and conspicuous notice" that a Bank is prohibited from allowing payment of a time deposit before maturity unless substantial interest is forfeited. Regulation Q also prohibits a national bank from basing an advertised percentage yield on a period exceeding one year. Where the advertised yield is based on compounding interest during one year, a national bank must state the annual rate of simple interest with equal prominence.

You state in your letter that the Deposit Side of the Display Center is designed to comply with the requirements of Regulation Q. Based upon the representations made in your letter, I agree with your conclusion and have no objection to the Bank's use of the Deposit Side as you describe it.

With regard to the Loan Side, you properly state in your letter that the Bank must follow the rules set forth in Regulation Z, 12 CFR 226 when advertising its loan products. Under Regulation Z, an advertisement for open-end or closed-end credit that states certain credit terms (you refer to them as "trigger terms") must clearly and conspicuously set forth certain other terms. These other terms are described in sections 226.16(b) and 226.24(c) for open-end and closed-end credit respectively.

The Loan Side advertises, as an annual percentage rate, the current finance charge for each loan product listed on the Display Center. As you discuss in your letter, the disclosure of an annual percentage rate is a trigger term under Regulation Z for open-end credit. The Bank must therefore disclose the other terms required to be disclosed under 12 CFR 226.6. You claim that the Bank satisfies this requirement by disclosing these terms in the brochures maintained in the permanent pockets attached to the Display Center. Given the close physical proximity of the brochures to each loan product's advertised finance charge and the fact that the Display Center directs customers to review the brochures for more information regarding each loan product, you argue that the brochures satisfy Regulation Z's requirement that the terms be "clearly and conspicuously set forth."

I agree with your conclusion that the Bank satisfies Regulation Z's "clearly and conspicuously" standard by providing brochures in the manner described in your letter and have no objection to the Bank's use of the Loan Side as you describe it.

James M. Kane
District Counsel
Central District

Note: Enclosures from bank counsel are omitted. Copies may be obtained from the Communications Division.

* * *

90-3 — May 2, 1990

This is in response to your letter of December 5, 1989, in which you request that this office impose no objec-

tion with regard to Bank of America NT&SA's ("Bank") proposal to provide, through its Field Services Administration Unit ("Unit"), certain vault, lock and automatic teller machine ("ATM") services to third party financial institutions.

Your letter explains that the primary function of the Bank's Field Services Unit is to assume maintenance responsibility for all Bank equipment. The presence of numerous branches of the Bank in California requires the Unit to staff 20 field shops located throughout the state. Each field office must maintain 100 percent staffing, but in many instances, up to 10 percent of the work schedule is "idle time" where no work orders are pending. To employ this extra capacity, the Bank proposes engaging in the following activities for third party financial institutions:

(1) installation, maintenance, and removal of bank vault doors, night deposits, safe deposit boxes, and free standing safes;

(2) lock and combination lock repairs, maintenance, rekeying, and forced openings of safe deposit boxes; and

(3) ATM installation, maintenance, and removal.

In my opinion, providing these services to third party financial institutions is within the powers of national banks, and consequently, there is no objection to the implementation of your proposal.

Discussion

Incidental to the business of banking

In making a decision about the permissibility of a proposed activity, it is necessary to inquire whether such activity falls within the scope of 12 U.S.C. 24(7), which authorizes national banks "to exercise . . . all such incidental powers as shall be necessary to carry on the business of banking." 12 U.S.C. 24(7). *See also M&M Leasing Corp. v. Seattle First Nat. Bank*, 563 F.2d 1377 (1977). Internal security for banking is explicitly authorized by the Bank Protection Act of 1968, 12 U.S.C. 1881-1884. The Bank Protection Act requires banks to comply with certain security measures, the minimum standards to be determined by their federal regulators. 12 U.S.C. 1882. To implement these standards, the OCC has promulgated regulations concerning security devices and procedures for national banks. *See* 12 CFR Part 21. In light of such legislative and regulatory authority, a bank's provision of security measures for itself and other financial institutions can properly be termed an activity which is incidental to the business of banking within the meaning of 12 U.S.C. 24(7).

You indicate that your proposal has been limited to those activities which address equipment that is specific to the requirements of financial institutions and which are required pursuant to 12 CFR Part 21. This office has previously permitted national banks to perform various services and activities on a contractual basis for other financial institutions. In a 1979 Staff Interpretive Letter, published in the 1981-82 Transfer Binder, Fed. Banking L. Rep. (CCH) ¶ 85,218 (December 27, 1979), the office allowed a national bank to furnish certain management services to other financial institutions, as long as the services "reflect and incorporate the unique nature of the banking business." *Id.* Since national banks and other financial institutions must comply with specific requirements for security devices and systems, *e.g.*, 12 CFR Part 21, the Bank's proposed services reflect and incorporate the unique nature of the banking business.

Correspondent services

National banks have traditionally performed services for other financial institutions, *e.g.* correspondent services, which contribute to the efficient functioning of the banking system. In fact, as you noted in your letter, the OCC has found various aspects of a national bank's installation or operation of an ATM network for third party financial institutions to be a type of correspondent service. No Objection Letter No. 87-11, reprinted in Fed. Banking L. Rep. (CCH) ¶ 84,040 (November 30, 1987).

This office has maintained the position that it is not inconsistent with 12 U.S.C. 24(7) for a bank to pass on to other financial institutions the benefits of its experience in certain activities which are central to banking, under the framework of correspondent services and pursuant to 12 U.S.C. 24(7). *See* 1979 Staff Interpretive Letter, *supra; see also* Interpretive Letter No. 449, reprinted in Fed. Banking L. Rep. (CCH) ¶ 85,673 (August 23, 1988). Because internal security is an important part of the operations of a bank, and because banks are required by the Bank Protection Act to have adequate internal security, the provision of security services to third party financial institutions, as outlined in your proposal, could be considered to be offered by Bank as a correspondent service and permitted as an incidental power of a national bank.

Therefore, no objection will be raised to the Bank proceeding with the proposal as described above. This conclusion is based on the facts presented in your letter of December 5, 1989. Please note that any different facts or conditions might require a different conclusion. In addition, these views are based on current law and regulation, are subject to reconsideration, and

should not be regarded as precedent binding on the Comptroller.

Peter Liebesman
Assistant Director
Legal Advisory Services Division

Note: Enclosures from bank counsel are omitted. Copies may be obtained from the Communications Division.

* * *

Trust Interpretations

247 — May 9, 1990

This is in reply to your letter dated March 7, 1990.

* * * Bank & Trust, * * * a state-chartered nonmember bank, operates a common trust fund. Participating accounts utilize a form trust agreement provided by the bank. The form agreement, which may be revised by the customer, is revocable and directs investment in the common fund. The minimum amount which may be placed in the personal trust common fund is $20,000.

You inquire whether the personal trust accounts could be potentially in violation of 12 CFR 9.18(a)(1) because the account is not received by the bank in its capacity as trustee but as a managed agency account. The question is raised because, under the terms of the form trust agreement, the settlor and the primary beneficiary are the same; the trust terminates upon the death of the settlor; and the instrument directs the trustee to invest in a single common trust fund.

Under 12 CFR 9.18(a)(1), it is a condition precedent that the bank act in the capacity of trustee or other specified fiduciary capacities. The creation, and therefore the validity of a trust, is a matter of local law. If a valid trust is established under local law, the OCC would not defeat the trust and find the bank to be acting in the capacity of managing agent.

In a like situation involving a national bank, the OCC would suggest that the bank consider a "no action letter" from the Securities and Exchange Commission ("SEC"). The letter would address whether the common trust fund qualifies for the common trust fund exemptions of the federal securities laws. The staff of the SEC has consistently taken the position that such qualification is conditioned upon the participating accounts being established for a "bona fide" fiduciary purpose. This staff position has been confirmed by the Commission. See Howard Savings Bank of Newark, New Jersey, available May 1, 1980.

In similar situations as described in your letter, the staff of the SEC has declined to issue "no action letters." The staff of the SEC has consistently interpreted the provisions of the federal securities laws so as to impose upon banks seeking such exemption additional requirements beyond merely serving in a traditional or common-law fiduciary capacity. See United Missouri Bank of Kansas City, N.A., available December 31, 1981.

The various positions as taken by the staff of the SEC are not necessarily those of the OCC. However, a national bank, in the administration of collective investment funds, must comply with the federal securities laws.

Dean E. Miller
Senior Advisor for
Fiduciary Responsibilities

* * *

248 — May 7, 1990

This is in response to your letter of May 2, 1990. You have requested clarification regarding the meaning and scope of Precedents and Opinions 9.1300 and 9.2025, set forth in Sections 1101.0 and 1101.3 of the *Comptroller's Handbook for National Trust Examiners*.

Both Precedents and Opinions are based on 12 U.S.C. 1863 and 12 U.S.C. 1867, which address the propriety of employing outside corporations to perform bookkeeping services. 12 U.S.C. 1863 lists services which may be performed by a bank service corporation. These include check and deposit sorting and posting, computation and posting of interest and other credits and charges, preparation and mailing of checks, statements, notices and similar items, or any clerical, bookkeeping, accounting, statistical, or similar functions performed for a depository institution. 12 U.S.C. 1867 indicates that performance of such services by agents of national banks is subject to regulation and examination by the OCC to the same extent as if the services were being performed by the bank. The statute also requires appropriate notification of such service relationships.

Trust support services, though not specifically addressed in the statutes, would encompass significant bookkeeping services such as fiduciary accounting and recordkeeping systems, Medicare filing, proxy

processing, probate asset valuation, securities pricing and real estate appraisals would not be covered. However, such information should be made available to OCC examiners during their onsite review of the bank's fiduciary activities.

Billy L. Dowdle
Director for Trust Activities

* * *

249 — May 23, 1990

This is in response to your letter of May 15, 1990, concerning the payment of referral fees. Specifically, you inquire whether the bank's proposal to pay certain referral fees will violate federal law or OCC policy.

Without additional specific information regarding the referral fees that will be paid and the terms of such arrangement, we are unable to confirm that such fees will not violate federal law or OCC policy. However, we have provided general guidance on the issue of referral fees.

Bank A, which is a national bank with fiduciary powers, has been requested by Bank B, a state-chartered institution without fiduciary powers and not affiliated with Bank A, to provide trust services to its customers. Bank A would be named trustee and would pay a referral fee to Bank B for revenues earned from the business referred to Bank A.

The payment of finder's fees in connection with the marketing of national bank trust services was addressed in Trust Interpretive Letter No. 78, March 4, 1987. The letter approved the payment of finder's or referral fees to other financial institutions by a sharing of the fee charged by the bank to which the business is referred. The letter stated that such fees must be reasonable under the facts and circumstances, and must be disclosed to the customers. It also cautioned that a fee splitting arrangement on an ongoing basis may not be reasonable under the facts and circumstances and could give rise to a joint venture.

Finder's fees should be high enough to be attractive to potential sources of referrals, yet not so high as to be financially detrimental to the bank or create an appearance of profit sharing, which could lead to the inference of a joint venture or partnership. National banks are not permitted to be members of general partnerships or, by extension, joint ventures. *Merchants National Bank v. Wehrmann*, 202 U.S. 295 (1903).

All fees should terminate with respect to any account if the account is closed, and the bank should have no obligation to any finder to maintain or continue any account.

All promotional materials should make it clear that Bank A is providing the fiduciary services and not Bank B.

Dean E. Miller
Senior Advisor for
Fiduciary Responsibility

* * *

Mergers — April 1 to June 30, 1990

Mergers consummated involving two or more operating banks.

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California

April 1, 1990:
Wells Fargo Bank, National Association, San Francisco, California, and
Torrey Pines Bank, Solana Beach, California
Merger ... 95

May 31, 1990:
Mid City Bank, National Association, Brea, California, and
The Wilshire Bank, National Association, Los Angeles, California
Merger ... 95

June 29, 1990:
City National Bank, Beverly Hills, California, and
Warner Center Bank, Los Angeles, California
Merger ... 95

Colorado

April 20, 1990:
Nederland National Bank, Nederland, Colorado, and
Bergen Park National Bank, Evergreen Colorado
Merger ... 95

May 9, 1990:
The Women's Bank, National Association, Denver, Colorado, and
Chancery National Bank, Denver, Colorado
Merger ... 95

May 31, 1990:
Colonial National Bank, Denver, Colorado, and
Rocky Mountain National Bank, Denver, Colorado
Merger ... 96

Florida

May 4, 1990:
Barnett Bank of Jacksonville, National Association, Jacksonville, Florida, and
Tucker State Bank of Jacksonville, Jacksonville, Florida
Merger ... 96

June 22, 1990:
Barnett Bank of Hernando County, National Association, Spring Hill, Florida, and
Barnett Bank of Citrus, National Association, Inverness, Florida
Merger ... 96

Georgia

June 15, 1990:
The First National Bank of Commerce, Commerce, Georgia, and
Citizens Banking Company, Lexington, Georgia
Merger ... 96

Illinois

May 1, 1990:
First National Bank and Trust Company of Rockford, Rockford, Illinois, and
First Community National Bank, Rockford, Illinois
Merger ... 96

June 1, 1990:
Suburban National Bank of Palatine, Palatine, Illinois, and
Suburban National Bank of Woodfield, Schaumburg, Illinois
Merger ... 96

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June 15, 1990:
First Midwest Bank, National Association, Waukegan, Illinois, and
First Midwest Bank/Deerfield, National Association, Deerfield, Illinois, and
First Midwest Bank/Buffalo Grove, National Association, Buffalo Grove, Illinois
Merger ... 97

Indiana

April 1, 1990:
First National Bank of Logansport, Logansport, Indiana and
First National Bank of Indiana, Monticello, Indiana
Merger ... 97

April 21, 1990:
Ameritrust National Bank, Central Indiana, Indianapolis, Indiana, and
Franklin Bank and Trust Company, Franklin, Indiana
Merger ... 97

April 21, 1990:
Ameritrust National Bank, Central Indiana, Indianapolis, Indiana, and
Ameritrust National Bank, Shelby County, Fairland, Indiana
Merger ... 97

June 1, 1990:
The Posey County National Bank, Mount Vernon, Indiana, and
Farmers Bank and Trust Company, Wadesville, Indiana
Merger ... 97

Kansas

April 12, 1990:
Farmers Bank & Trust, National Association, Great Bend, Kansas, and
The Bazine State Bank, Bazine, Kansas
Merger ... 97

April 30, 1990:
Bank IV Wichita, National Association, Wichita, Kansas and
Citadel Bank of Wichita, Wichita, Kansas
Merger ... 98

April 30, 1990:
Bank IV Butler County, National Association, El Dorado, Kansas, and
Citadel Bank of Augusta, Augusta, Kansas
Merger ... 98

May 31, 1990:
Emprise Bank, National Association, Hutchinson, Kansas, and
Emprise Bank, Pratt, Kansas
Merger ... 98

Kentucky

April 19, 1990:
The National Bank of Corinth, Corinth, Kentucky, and
Corinth Deposit National Bank, Corinth, Kentucky
Merger ... 98

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Louisiana
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First National Bank of St. Landry Parish, Opelousas, Louisiana, and
Acadiana National Bank, Lafayette, Louisiana
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Maryland
June 30, 1990
Maryland National Bank, Baltimore, Maryland, and
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The First National Bank of Boston, Boston, Massachusetts, and
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April 1, 1990
First of America Bank-Mid Michigan, National Association, Bay City, Michigan, and
First of America Bank-Frankenmuth, Frankenmuth, Michigan
Merger 99
April 30, 1990
National Bank of Detroit, Detroit, Michigan, and
Peoples Bank of Port Huron, Port Huron, Michigan
Merger 99
May 31, 1990
National Bank of Detroit, Detroit, Michigan, and
NBD Commerce Bank, Lansing, Michigan, and
NBD Ann Arbor National Association, Ann Arbor, Michigan
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Minnesota
April 30, 1990
Norwest Bank Minnesota, National Association, Minneapolis, Minnesota, and
The Bank North, National Association, Crystal, Minnesota, and
The Bank Excelsior, National Association, Excelsior, Minnesota, and
The Bank Wayzata, National Association, Wayzata, Minnesota
Merger 99

Missouri
May 24, 1990
Citizens National Bank of Maryville, Maryville, Missouri, and
The Gentry County Bank, Albany, Missouri
Merger 99

New Jersey
April 28, 1990
New Jersey National Bank, Ewing Township, New Jersey, and
First Pennsylvania Bank, National Association, Evesham Township, New Jersey
Merger 99
June 29, 1990
Amboy National Bank, Rocky Hill, New Jersey, and
Montgomery National Bank, Rocky Hill, New Jersey
Merger 100

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North Carolina
May 18, 1990
NCNB National Bank of North Carolina, Charlotte, North Carolina, and
Carolina Mountain Bank, Highlands, North Carolina
Merger 100

Ohio
June 1, 1990
Belmont County National Bank, St. Clairsville, Ohio, and
The First National Bank of Jewett, Jewett, Ohio
Merger 100

Oklahoma
June 14, 1990
The First National Bank of Midwest City, Midwest City, Oklahoma, and
Exchange National Bank of Del City, Del City, Oklahoma
Merger 100
June 28, 1990
The Liberty National Bank & Trust Company of Oklahoma City, Oklahoma City, Oklahoma, and
Brookwood National Bank, Oklahoma City, Oklahoma
Merger 100

Pennsylvania
April 24, 1990
First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania, and
The First National Bank of Wyoming, Pennsylvania, Wyoming, Pennsylvania
Merger 100

Texas
April 5, 1990
NCNB Texas National Bank, Dallas, Texas, and
First Bank and Trust Company, Cedar Hill, Texas
Merger 101
April 19, 1990
NCNB Texas National Bank, Dallas Texas, and
Charles Schreiner Bank, Kerrville, Texas
Merger 101
April 19, 1990
The National Bank of Gatesville, Gatesville, Texas, and
Cove State Bank, Copperas Cove, Texas
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First State Bank of Crandall, Crandall, Texas
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Merger 102
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Texas Capital Bank, National Association, Houston, Texas, and
Texas Capital Bank-Fort Bend, Richmond, Texas
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First National Bank Northeast, Austin, Texas
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Hibernia National Bank in Texas, Pflugerville, Texas, and
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NCNB Texas National Bank, Dallas Texas, and
The First National Bank of Georgetown, Georgetown, Texas
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The Huntsville National Bank, Huntsville, Texas
Merger . . . 103

June 1, 1990:
NCNB Texas National Bank, Dallas, Texas, and
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NBC Bank-Kerrville, National Association, Kerrville, Texas, and
NBC Bank-Austin, National Association, Austin, Texas, and
NBC Bank-Boerne, National Association, Boerne, Texas, and
NBC Bank-Uvalde, National Association, Uvalde, Texas, and
NBC Bank-South Texas, National Association, Corpus Cristi, Texas, and
NBC Bank-Rio Grande Valley, National Association, Mission, Texas, and
NBC Bank-San Antonio, National Association, San Antonio, Texas, and
NBC Bank-Sequin, National Association, Sequin, Texas
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June 7, 1990:
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June 7, 1990:
Hibernia National Bank in Texas, Pflugerville, Texas, and
Richmark Bank, Houston, Texas
Merger . . . 103

June 7, 1990:
First National Bank in Valley Mills, Valley Mills, Texas, and
Clifton National Bank, Clifton, Texas
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The First National Bank in Decatur, Decatur, Texas, and
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Merger . . . 104

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June 8, 1990
The First National Bank of Athens Athens, Texas and
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Merger . . . 104

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Hibernia National Bank in Texas, Pflugerville Texas, and
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Merger . . . 105

June 14, 1990:
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The Wimberly Bank, Wimberly, Texas
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Texas Commerce Bank-Rio Grande Valley, Brownsville, Texas, and
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The Gainsville National Bank in Gainsville, Gainsville, Texas and
The Valley View National Bank, Valley View, Texas
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Georgetown National Bank, Georgetown, Texas
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Merger . . . 106

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The Peoples State Bank, Three Lakes, Wisconsin
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- Southtrust Bank of Alabama, National Association, Birmingham, Alabama, and
- Guaranty Federal Savings and Loan Association, Birmingham, Alabama
- Merger ... 106

May 4, 1990:
- Southtrust Bank, National Association, Montgomery, Alabama, and
- Guaranty Federal Savings and Loan Association, Birmingham, Alabama
- Merger ... 106

May 4, 1990:
- Southtrust Bank of Huntsville, National Association, Huntsville, Alabama, and
- Guaranty Federal Savings and Loan Association, Birmingham, Alabama
- Merger ... 106

May 18, 1990:
- Citizens National Bank, Valley, Alabama, and
- Phoenix Federal Savings & Loan Association, Phoenix City, Alabama
- Merger ... 107

May 18, 1990:
- Fort Rucker National Bank, Fort Rucker, Alabama, and
- Phoenix Federal Savings & Loan Association, Phoenix City, Alabama
- Merger ... 107

May 18, 1990:
- First National Bank of Hamilton, Hamilton, Alabama, and
- Phoenix Federal Savings & Loan, Phoenix City, Alabama
- Merger ... 107

Arizona

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- Biltmore Investors Bank, National Association, Phoenix, Arizona, and
- Sentinel Federal Savings and Loan Association, Phoenix, Arizona
- Merger ... 107

Arkansas

May 29, 1990:
- First National Bank of Phillips County, Helena, Arkansas, and
- Capital Federal Savings & Loan Association, Little Rock, Arkansas
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California

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- Bank of America, N.T. & S.A., San Francisco, California, and
- First Federal Savings & Loan Association of Bakersfield, Bakersfield, California
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April 27, 1990:
- Bank of America, N.T. & S.A., San Francisco, California, and
- Guardian Savings & Loan Association, Bakersfield, California
- Merger ... 107

April 27, 1990:
- Frontier Bank, National Association, La Palma, California, and
- Western Savings Bank, F.S.B., Wilmington, California
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- Washington Savings & Loan Association, Stockton, California
- Merger ... 108

May 11, 1990:
- The Financial Center Bank, National Association, San Francisco, California, and
- Cabrillo Federal Savings Bank, San Jose, California
- Merger ... 108

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- Mission National Bank, San Francisco, California, and
- City Federal Savings and Loan Association, Oakland, California
- Merger ... 108

June 22, 1990:
- San Mateo County National Bank, San Mateo, California, and
- Peninsula Federal Savings Association, San Francisco, California
- Merger ... 108

June 29, 1990:
- Security Pacific National Bank, Los Angeles, California, and
- Gibraltar Savings, F.A., Simi Valley, California
- Merger ... 108

Colorado

May 25, 1990:
- The First National Bank of Las Animas, Las Animas, Colorado, and
- Otero Savings, A Federal Savings and Loan Association, Las Animas, Colorado
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June 22, 1990:
- Mountain National Bank, Woodland Park, Colorado, and
- Rocky Mountain Savings, F.S.B., Woodland Park, Colorado
- Merger ... 109

June 29, 1990:
- The Western National Bank of Colorado, Colorado Springs, Colorado, and
- First Federal Savings and Loan Association, Colorado Springs, Colorado
- Merger ... 109

June 29, 1990:
- The Western National Bank of Colorado Springs, Colorado Springs, Colorado, and
- First Federal Savings and Loan Association, Colorado Springs, Colorado
- Merger ... 109

June 29, 1990:
- The Western National Bank of Academy Boulevard, Colorado Springs, Colorado, and
- First Federal Savings and Loan Association, Colorado Springs, Colorado
- Merger ... 109

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June 8, 1990:
- Barnett Bank of South Florida, National Association, Miami, Florida, and
- Royal Palm Federal Savings and Loan Association, West Palm Beach, Florida
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June 8, 1990:
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The First National Bank of Atlanta, Atlanta, Georgia, and
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First Midwest Bank/Illinois, National Association, Joliet, Illinois, and
Peoples Savings & Loan Association, F.A., Streator, Illinois
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Marquette National Bank, Chicago, Illinois, and
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First Interstate Bank of Spencer, National Association, Spencer, Iowa, and
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The Citizens National Bank of Fort Scott, Fort Scott, Kansas, and
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Anchor Federal Savings and Loan Association, Kansas City, Kansas
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June 8, 1990:
Annapolis National Bank, Annapolis, Maryland, and
Gibraltar Savings & Loan Association, F.A., Annapolis, Maryland
Merger . . . 111

Michigan
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Blue Valley Federal Savings and Loan Association, Kansas City, Missouri
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Commerce Bank of St. Joseph, National Association, St. Joseph, Missouri, and
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American National Bank, Nebraska City, Nebraska, and
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New Mexico
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First National Bank in Albuquerque, Albuquerque, New Mexico, and
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Wisconsin
May 25, 1990:
The First National Bank of Hudson, Hudson, Wisconsin, and
Durano Federal Savings & Loan Association, Durano, Wisconsin
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A number of transactions in this section do not have an accompanying decision. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transactions had minimal or no adverse competitive effects. The OCC found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects.

WELLS FARGO BANK, NATIONAL ASSOCIATION,
San Francisco, California, and Torrey Pines Bank, Solana Beach, California

Names of institutions and type of transaction	*Total assets*
Wells Fargo Bank, National Association, San Francisco, California (1741), with	$45,272,755,000
and Torrey Pines Bank, Solana Beach, California, with	458,491,000
merged April 1, 1990, under charter and title of the former. The merged bank at date of merger had	45,652,759,000

* * *

MID CITY BANK, NATIONAL ASSOCIATION,
Brea, California, and The Wilshire Bank, National Association, Los Angeles, California

Names of institutions and type of transaction	*Total assets*
Mid City Bank, National Association, Brea, California (17732), with	---*
and The Wilshire Bank, National Association, Los Angeles, California (17058), with	---*
merged May 31, 1990, under charter and title of the former. The merged bank at date of merger had	

* * *

CITY NATIONAL BANK,
Beverly Hills, California, and Warner Center Bank, Los Angeles, California

Names of institutions and type of transaction	*Total assets*
City National Bank, Beverly Hills, California (14695), with	$4,334,000,000
and Warner Center Bank, Los Angeles, California, with	65,586,000
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	4,393,000,000

* * *

NEDERLAND NATIONAL BANK,
Nederland, Colorado, and Bergen Park National Bank, Evergreen, Colorado

Names of institutions and type of transaction	*Total assets*
Nederland National Bank, Nederland, Colorado (21121), with	$7,153,000
and Bergen Park National Bank, Evergreen, Colorado (18457), with	---
merged April 20, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE WOMEN'S BANK, NATIONAL ASSOCIATION,
Denver, Colorado, and Chancery National Bank, Denver, Colorado

Names of institutions and type of transaction	*Total assets*
The Women's Bank, National Association, Denver, Colorado (16723), with	$68,451,000
Chancery National Bank, Denver, Colorado (18153), with	15,234,000
merged May 9, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

*Data not available.

COLONIAL NATIONAL BANK,
Denver, Colorado, and Rocky Mountain National Bank, Denver, Colorado

Names of institutions and type of transaction	Total assets
Colonial National Bank, Denver, Colorado (17459), with	$14,156,000
and Rocky Mountain National Bank, Denver, Colorado (18477), with	9,203,000
merged May 31, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BARNETT BANK OF JACKSONVILLE, NATIONAL ASSOCIATION,
Jacksonville, Florida, and Tucker State Bank of Jacksonville, Jacksonville, Florida

Names of institutions and type of transaction	Total assets
Barnett Bank of Jacksonville, National Association, Jacksonville, Florida (9049), with	$2,077,990,000
and Tucker State Bank of Jacksonville, Jacksonville, Florida, with	41,759,000
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BARNETT BANK OF HERNANDO COUNTY, NATIONAL ASSOCIATION,
Spring Hill, Florida, and Barnett Bank of Citrus, National Association, Inverness, Florida

Names of institutions and type of transaction	Total assets
Barnett Bank of Hernando County, National Association, Spring Hill, Florida (20625), with	$224,008,000
and Barnett Bank of Citrus, National Association, Inverness, Florida (20008), with	181,565,000
merged June 22, 1990, under charter 20625 and title "Barnett Bank of the Suncoast, National Association." The merged bank at date of merger had	405,573,000

* * *

THE FIRST NATIONAL BANK OF COMMERCE,
Commerce, Georgia, and Citizens Banking Company, Lexington, Georgia

Names of institutions and type of transaction	Total assets
The First National Bank of Commerce, Commerce, Georgia (7431), with	$83,999,000
and Citizens Banking Company, Lexington, Georgia, with	15,624,000
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	98,825,000

* * *

FIRST NATIONAL BANK AND TRUST COMPANY OF ROCKFORD,
Rockford, Illinois, and First Community National Bank, Rockford, Illinois

Names of institutions and type of transaction	Total assets
First National Bank and Trust Company of Rockford, Rockford, Illinois (479), with	$484,503,000
and First Community National Bank, Rockford, Illinois (16684), with	110,519,000
merged May 1, 1990, under charter and title of the former. The merged bank at date of merger had	595,022,000

* * *

SUBURBAN NATIONAL BANK OF PALATINE,
Palatine, Illinois, and Suburban National Bank of Woodfield, Schaumburg, Illinois

Names of institutions and type of transaction	Total assets
Suburban National Bank of Palatine, Palatine, Illinois (14494), with	$177,219,000
and Suburban National Bank of Woodfield, Schaumburg, Illinois (16260), with	37,934,000
merged June 1, 1990 under charter and title of the former. The merged bank at date of merger had	215,153,000

* * *

FIRST MIDWEST BANK, NATIONAL ASSOCIATION,
Waukegan, Illinois, and First Midwest Bank/Deerfield, National Association, Deerfield, Illinois, and First Midwest Bank/Buffalo Grove, National Association, Buffalo Grove, Illinois

Names of institutions and type of transaction	Total assets
First Midwest Bank, National Association, Waukegan, Illinois (14364), with	$567,593,000
and First Midwest Bank/Deerfield, National Association, Deerfield, Illinois (15097), with	88,896,000
and First Midwest Bank/Buffalo Grove, National Association, Buffalo Grove, Illinois (16431), with	109,846,000
merged June 15, 1990, under charter 16431 amd title "First Midwest Bank, National Association." The merged bank at date of merger had	771,976,000

* * *

THE FIRST NATIONAL BANK OF LOGANSPORT,
Logansport, Indiana, and First National Bank of Indiana, Monticello, Indiana

Names of institutions and type of transaction	Total assets
The First National Bank of Logansport, Logansport, Indiana (13580), with	$210,878,000
and First National Bank of Indiana, Monticello, Indiana (14630), with	18,720,000
merged April 1, 1990, under charter 13580 and title "First National Bank of Indiana." The merged bank at date of merger had	229,598,000

* * *

AMERITRUST NATIONAL BANK, CENTRAL INDIANA,
Indianapolis, Indiana, and Franklin Bank and Trust Company, Franklin, Indiana

Names of institutions and type of transaction	Total assets
Ameritrust National Bank, Central Indiana, Indianapolis, Indiana (16018), with	$554,631,000
and Franklin Bank and Trust Company, Franklin, Indiana, with	182,173,000
merged April 21, 1990, under charter and title of the former. The merged bank at date of merger had	744,717,000

* * *

AMERITRUST NATIONAL BANK, CENTRAL INDIANA,
Indianapolis, Indiana, and Ameritrust National Bank, Shelby County, Fairland, Indiana

Names of institutions and type of transaction	Total assets
Ameritrust National Bank, Central Indiana, Indianapolis, Indiana (16018), with	$744,717,000
Ameritrust National Bank, Shelby County, Fairland, Indiana (8337), with	101,726,000
merged April 21, 1990, under charter and title of the former. The merged bank at date of merger had	847,633,000

* * *

THE POSEY COUNTY NATIONAL BANK, MOUNT VERNON,
Mount Vernon, Indiana, and Farmers Bank and Trust Company, Wadesville, Indiana

Names of institutions and type of transaction	Total assets
The Posey County National Bank, Mount Vernon, Mount Vernon, Indiana (13542), with	$74,035,000
and Farmers Bank and Trust Company, Wadesville, Indiana, with	115,163,000
merged June 1, 1990, under charter 13542 and title "Citizens Bank of Posey County, National Association." The merged bank at date of merger had	187,198,000

* * *

FARMERS BANK & TRUST, NATIONAL ASSOCIATION,
Great Bend, Kansas, and The Bazine State Bank, Bazine, Kansas

Names of institutions and type of transaction	Total assets
Farmers Bank & Trust, National Association, Great Bend, Kansas (17464), with	$68,478,000
and The Bazine State Bank, Bazine, Kansas, with	---
merged April 12, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK IV WICHITA, NATIONAL ASSOCIATION,
Wichita, Kansas, and Citadel Bank of Wichita, Wichita, Kansas

Names of institutions and type of transaction	*Total assets*
Bank IV Wichita, National Association, Wichita, Kansas (12490), with	$1,574,363,000
and Citadel Bank of Wichita, Wichita, Kansas with	74,455,000
merged April 30, 1990, under charter and title of the former. The merged bank at date of merger had	1,643,039,000

* * *

BANK IV BUTLER COUNTY, NATIONAL ASSOCIATION,
El Dorado, Kansas, and Citadel Bank of Augusta, Augusta, Kansas

Names of institutions and type of transaction	*Total assets*
Bank IV Butler County, National Association, El Dorado, Kansas (6494), with	$81,032,000
Citadel Bank of Augusta, Augusta, Kansas, with	23,609,000
merged April 30, 1990, under charter and title of the former. The merged bank at date of merger had	104,641,000

* * *

EMPRISE BANK, NATIONAL ASSOCIATION,
Hutchinson, Kansas, and Emprise Bank, Pratt, Kansas

Names of institutions and type of transaction	*Total assets*
Emprise Bank, National Association, Hutchinson, Kansas (10765), with	$188,534,000
and Emprise Bank, Pratt, Kansas, with	7,335,000
merged May 31, 1990, under charter and title of the former. The merged bank at date of merger had	195,859,000

* * *

THE NATIONAL BANK OF CORINTH,
Corinth, Kentucky, and Corinth Deposit National Bank, Corinth, Kentucky

Names of institutions and type of transaction	*Total assets*
The National Bank of Corinth, Corinth, Kentucky (22246), with	$---
and Corinth Deposit National Bank, Corinth, Kentucky (21358), with	---
merged April 19, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK OF ST. LANDRY PARISH,
Opelousas, Louisiana, and Acadiana National Bank, Lafayette, Louisiana

Names of institutions and type of transaction	*Total assets*
First National Bank of St. Landry Parish, Opelousas, Louisiana (16200), with	$125,714,000
and Acadiana National Bank, Lafayette, Louisiana, with	---
merged April 19, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

MARYLAND NATIONAL BANK,
Baltimore, Maryland, and Equitable Bank, National Association, Baltimore, Maryland

Names of institutions and type of transaction	*Total assets*
Maryland National Bank, Baltimore, Maryland (13745), with	$9,488,000,000
and Equitable Bank, National Association, Baltimore, Maryland (17356), with	4,825,000,000
merged June 30, 1990, under charter and title of the former. The merged bank at date of merger had	14,313,000,000

* * *

THE FIRST NATIONAL BANK OF BOSTON,
Boston, Massachusetts, and Merchantsbank of Boston, A Cooperative, Boston, Massachusetts

Names of institutions and type of transaction	*Total assets*
The First National Bank of Boston, Boston, Massachusetts (200), with	$30,000,100,000
and Merchantsbank of Boston, Boston, Massachusets, with	392,219,000
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST OF AMERICA BANK-MID MICHIGAN, NATIONAL ASSOCIATION,
Bay City, Michigan, and First of America Bank-Frankenmuth, Frankenmuth, Michigan

Names of institutions and type of transaction	Total assets
First of America Bank-Mid Michigan, National Association, Bay City, Michigan (14641), with	$633,387,000
and First of America Bank-Frankenmuth, Frankenmuth, Michigan, with	431,070,000
merged April 1, 1990, under charter and title of the former. The merged bank at date of merger had	1,067,796,000

* * *

NATIONAL BANK OF DETROIT,
Detroit, Michigan, and Peoples Bank of Port Huron, Port Huron, Michigan

Names of institutions and type of transaction	Total assets
National Bank of Detroit, Detroit, Michigan (13671), with	$16,391,256,000
and Peoples Bank of Port Huron, Port Huron, Michigan, with	321,314,000
merged April 30, 1990, under charter and title of the former. The merged bank at date of merger had	16,674,397,000

* * *

NATIONAL BANK OF DETROIT,
Detroit, Michigan, and NBD Commerce Bank, Lansing, Michigan, and NBD Ann Arbor National Association, Ann Arbor, Michigan

Names of institutions and type of transaction	Total assets
National Bank of Detroit, Detroit, Michigan (13671), with	$16,674,397,000
and NBD Commerce Bank, Lansing, Michigan, with	142,576,000
and NBD Ann Arbor National Association, Ann Arbor, Michigan (14933), with	368,909,000
merged May 31, 1990, under charter and title of the former. The merged bank at date of merger had	17,131,746,000

* * *

NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION,
Minneapolis, Minnesota, and The Bank North, National Association, Crystal, Minnesota, and The Bank Excelsior, National Association, Excelsior, Minnesota, and The Bank Wayzata, National Association, Wayzata, Minnesota

Names of institutions and type of transaction	Total assets
Norwest Bank Minnesota, National Association, Minneapolis, Minnesota (2006), with	$8,753,032,000
and The Bank North, National Association, Crystal, Minnesota (21935), with	114,496,000
and The Bank Excelsior, National Association, Excelsior, Minnesota (21939), with	87,205,000
and The Bank Wayzata, National Association, Wayzata, Minnesota (21945), with	178,576,000
merged April 30, 1990, under charter 2006 and title "Norwest Bank Minnesota, National Association." The merged bank at date of merger had	9,133,309,000

* * *

CITIZENS NATIONAL BANK OF MARYVILLE,
Maryville, Missouri, and The Gentry County Bank, Albany, Missouri

Names of institutions and type of transaction	Total assets
Citizens National Bank of Maryville, Maryville, Missouri (21815), with	$126,371,000
and The Gentry County Bank, Albany, Missouri, with	---
merged May 24, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NEW JERSEY NATIONAL BANK,
Ewing Township, New Jersey, and First Pennsylvania Bank, National Association, Evesham Township, New Jersey

Names of institutions and type of transaction	Total assets
New Jersey National Bank, Ewing Township, New Jersey (1327), with	$2,428,007,000
and First Pennnsylvania Bank, National Association, Evesham Township, New Jersey (21496), with	65,433,000
merged April 28, 1990, under charter and title of the former. The merged bank at date of merger had	2,493,440,000

* * *

AMBOY NATIONAL BANK,
Rocky Hill, New Jersey, and Montgomery National Bank, Rocky Hill, New Jersey

Names of institutions and type of transaction	*Total assets*
Amboy National Bank, Rocky Hill, New Jersey, (22288), with	$---
and Montgomery National Bank, Rocky Hill, New Jersey (16636), with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB NATIONAL BANK OF NORTH CAROLINA,
Charlotte, North Carolina and Carolina Mountain Bank, Highlands, North Carolina

Names of institutions and type of transaction	*Total assets*
NCNB National Bank of North Carolina, Charlotte, North Carolina (13761), with	$19,230,563,000
and Carolina Mountain Bank, Highlands, North Carolina, with	64,654,000
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	19,295,217,000

* * *

BELMONT COUNTY NATIONAL BANK,
St. Clairsville, Ohio, and The First National Bank of Jewett, Jewett, Ohio

Names of institutions and type of transaction	*Total assets*
Belmont County National Bank, St. Clairsville, Ohio (14050), with	$157,067,000
and The First National Bank of Jewett, Jewett, Ohio (13150), with	15,042,000
merged June 1, 1990, under charter and title of the former. The merged bank at date of merger had	172,081,000

* * *

THE FIRST NATIONAL BANK OF MIDWEST CITY,
Midwest City, Oklahoma, and Exchange National Bank of Del City, Del City, Oklahoma

Names of institutions and type of transaction	*Total assets*
The First National Bank of Midwest City, Midwest City, Oklahoma (14986), with	$141,246,000
and Exchange National Bank of Del City, Del City, Oklahoma (16166), with	43,160,000
merged June 14, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE LIBERTY NATIONAL BANK & TRUST COMPANY OF OKLAHOMA CITY,
Oklahoma City, Oklahoma, and Brookwood National Bank, Oklahoma City, Oklahoma

Names of institutions and type of transaction	*Total assets*
The Liberty National Bank & Trust Company of Oklahoma City, Oklahoma City, Oklahoma (11230), with	$---
and Brookwood National Bank, Oklahoma City, Oklahoma (17320), with	---
merged June 28, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST EASTERN BANK, NATIONAL ASSOCIATION,
Wilkes-Barre, Pennsylvania, and The First National Bank of Wyoming, Pennsylvania, Wyoming, Pennsylvania

Names of institutions and type of transaction	*Total assets*
First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (30), with	$2,160,192,000
and The First National Bank of Wyoming, Pennsylvania, Wyoming, Pennsylvania (8517), with	49,669,000
merged April 24, 1990, under charter and title of the former. The merged bank at date of merger had	2,205,888,000

* * *

COMPTROLLERS DECISION

On September 14, 1989, an application was made to the Office of the Comptroller of the Currency (OCC) for prior authorization to merge The First National Bank of Wyoming, Wyoming, Pennsylvania (FNB) into First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (First Eastern). This application is based on an agreement finalized between the proponents on August 9, 1989.

As of June 30, 1989, FNB, an independent bank, held total deposits of $40 million and operated a single office. As of the same date, First Eastern held total deposits of $1.9 billion and operated 49 offices. First Eastern is a wholly owned subsidiary of First Eastern Corporation, a two bank holding company.

The relevant geographic market for this proposal is the area including and immediately surrounding the city of Wilkes-Barre and several suburban towns in the Wilkes-Barre metropolitan area, including Wyoming. This is the area where FNB, the bank to be acquired, derives the bulk of its deposits. It is also the area where First Eastern operates a significant number of offices and competes directly with FNB. There are 12 banks and 4 savings and loan associations with a total of 53 offices competing in the relevant market. First Eastern is ranked first in the market with a 21 percent share of local deposits. FNB has only a nominal one percent market share. Consummation of this proposal will result in First Eastern picking up a nominal 1 percent in market share with no significant shift in market concentration. The OCC finds that while the proposed merger would eliminate some direct competition in the relevant market, consummation of this proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires the OCC to consider ". . .the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." First Eastern has the financial and managerial resources to absorb FNB without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their respective communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828 (c)) and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

February 16, 1990

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

NCNB TEXAS NATIONAL BANK, Dallas, Texas, and First Bank and Trust Company, Cedar Hill, Texas

Names of institutions and type of transaction	*Total assets*
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
and First Bank and Trust Company, Cedar Hill, Texas, with	---
merged April 5, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK, Dallas, Texas, and Charles Schreiner Bank, Kerrville, Texas

Names of institutions and type of transaction	*Total assets*
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,718,419,000
and Charles Schreiner Bank, Kerrville, Texas, with	---
merged April 19, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE NATIONAL BANK OF GATESVILLE, Gatesville, Texas, and Cove State Bank, Copperas Cove, Texas

Names of institutions and type of transaction	*Total assets*
The National Bank of Gatesville, Gatesville, Texas (4097), with	$82,917,000
and Cove State Bank, Copperas Cove, Texas, with	---
merged April 19, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE AMERICAN NATIONAL BANK OF TERRELL,
Terrell, Texas, and First State Bank of Crandall, Crandall, Texas

Names of institutions and type of transaction	Total assets
The American National Bank of Terrell, Terrell, Texas (4990), with	$213,516,000
and First State Bank of Crandall, Crandall, Texas, with	---
merged April 19, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK ONE, TEXAS, NATIONAL ASSOCIATION,
Dallas, Texas, and Trinity National Bank of Dallas, Dallas, Texas

Names of institutions and type of transaction	Total assets
Bank One, Texas, National Association, Dallas, Texas (21969), with	---
Trinity National Bank of Dallas, Dallas, Texas (15068), with	---
merged April 25, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

TEXAS CAPITAL BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Texas Capital Bank-Fort Bend, Richmond, Texas

Names of institutions and type of transaction	Total assets
Texas Capital Bank, National Association, Houston, Texas (18329), with	$53,649,000
and Texas Capital Bank-Fort Bend, Richmond, Texas with	62,365,000
merged April 30, 1990, under charter and title of the former. The merged bank at date of merger had	114,778,000

* * *

HIBERNIA NATIONAL BANK IN TEXAS,
Pflugerville, Texas, and First National Bank Northeast, Austin, Texas

Names of institutions and type of transaction	Total assets
Hibernia National Bank in Texas, Pflugerville, Texas (22070), with	$667,992,000
and First National Bank Northeast, Austin, Texas (16575), with	18,013,000
merged May 3, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

TEXAS NATIONAL BANK,
Longview, Texas, and First National Bank of Grand Saline, Grand Saline, Texas

Names of institutions and type of transaction	Total assets
Texas National Bank, Longview, Texas (18291), with	$59,269,000
and First National Bank of Grand Saline, Grand Saline, Texas (14476), with	28,574,000
merged May 10, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

HIBERNIA NATIONAL BANK IN TEXAS,
Pflugerville, Texas, and First National Bank of De Soto, De Soto, Texas

Names of institutions and type of transaction	Total assets
Hibernia National Bank in Texas, Pflugerville, Texas (22070), with	$667,992,000
and First National Bank of De Soto, De Soto, Texas (17161), with	24,070,000
merged May 10, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and The First National Bank of Georgetown, Georgetown, Texas

Names of institutions and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
and The First National Bank of Georgetown, Georgetown, Texas (4294), with	71,615,000
merged May 17, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and The Huntsville National Bank, Huntsville, Texas

Names of institutions and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
The Huntsville National Bank, Huntsville, Texas (14353), with	107,169,000
merged May 31, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and NBC Bank-Houston, National Association, Houston, Texas, and NBC Bank-Kerrville, National Association, Kerrville, Texas, and NBC Bank-Austin, National Association, Austin, Texas, and NBC Bank-Boerne, National Association, Boerne, Texas, and NBC Bank Uvalde, National Association, Uvalde, Texas, and NBC Bank-South Texas, National Association, Corpus Christi, Texas, and NBC Bank-Rio Grande Valley, National Association, Mission, Texas, and NBC Bank-San Antonio, National Association, San Antonio, Texas, and NBC Bank-Sequin, National Association, Sequin, Texas

Names of institutions and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
NBC Bank-Houston, National Association, Houston, Texas, (15834), with	186,247,000
and NBC Bank-Kerrville, National Association, Kerrville, Texas (16724), with	26,011,000
and NBC Bank-Austin, National Association, Austin, Texas (16634), with	33,805,000
and NBC Bank-Boerne, National Association, Boerne, Texas (21720), with	53,811,000
and NBC Bank-Uvalde, National Association, Uvalde, Texas (21721), with	35,133,000
and NBC Bank-South Texas, National Association, Corpus Christi, Texas (12729), with	---
and NBC Bank-Rio Grande Valley, National Association, Mission, Texas (14383), with	---
and NBC Bank-San Antonio, National Association, San Antonio, Texas (6956), with	938,232,000
and NBC Bank-Sequin, National Association, Sequin, Texas (5097), with	63,757,000
merged June 1, 1990, under charter 21834 and title "NCNB Texas National Bank." The merged bank at date of merger had	---

* * *

TEXAS COMMERCE BANK-EL PASO, NATIONAL ASSOCIATION,
El Paso, Texas, and Texas National Bank, El Paso, Texas

Names of institutions and type of transaction	Total assets
Texas Commerce Bank-El Paso, National Association, El Paso, Texas (12769), with	$1,225,078,000
and Texas National Bank, El Paso, Texas (17943), with	131,825,000
merged June 7, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

HIBERNIA NATIONAL BANK IN TEXAS,
Pflugerville, Texas, and Richmark Bank, Houston, Texas

Names of institutions and type of transaction	Total assets
Hibernia National Bank in Texas, Pflugerville, Texas (22070), with	$667,992,000
and Richmark Bank, Houston, Texas, with	---
merged June 7, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK IN VALLEY MILLS,
Valley Mills, Texas, and Clifton National Bank, Clifton, Texas

Names of institutions and type of transaction	Total assets
First National Bank in Valley Mills, Valley Mills, Texas (13675), with	$32,778,000
and Clifton National Bank, Clifton, Texas (18261), with	---
merged June 7, 1990 under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK IN DECATUR, Decatur, Texas, and Hulen National Bank, Fort Worth, Texas

Names of institutions and type of transaction	*Total assets*
The First National Bank in Decatur, Decatur, Texas (13623), with	$75,336,000
and Hulen National Bank, Fort Worth, Texas (17771), with	12,739,000
merged June 7, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK OF ATHENS, Athens, Texas, and First State Bank, Eustace, Texas

Names of institutions and type of transaction	*Total assets*
The First National Bank of Athens, Athens, Texas (4278), with	$125,422,000
and First State Bank, Eustace, Texas, with	11,362,000
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	136,281,000

* * *

COMPTROLLER'S DECISION

On December 15, 1989, application was made to the Office of the Comptroller of the Currency (OCC) for prior authorization to consolidate First State Bank, Estace, Texas (First State Bank), with The First National Bank, Athens, Texas (First National). This application is based on an agreement finalized between the proponents on November 30, 1989.

As of September 30, 1989, First State Bank, an independent bank, held total deposits of $11 million and operated a single office. As of the same date, First National held total deposits of $110 million and operated a single office.

The relevant geographic market for this proposal is the area including and immediately surrounding the town of Eustace. This is the area where First State Bank, the bank to be acquired, operates and derives the bulk of its deposits. First National's only office is located approximately 12 miles south of this market and is not considered a competitor in the relevant market. Therefore, consummation of this proposal will result in one competitor replacing another in the relevant market, and it should not have a significantly adverse effect on competition.

The Bank Merger Act requires the OCC to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served." First National has the financial and managerial resources to absorb First State Bank without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their respective communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828(c)) and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

March 30, 1990

SUMMARY OF REPORT OF ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

HIBERNIA NATIONAL BANK IN TEXAS,
Pflugerville, Texas, and Alliance Bank, National Association, Austin, Texas

Names of institutions and type of transaction	Total assets
Hibernia National Bank in Texas, Pflugerville, Texas (22070), with	$667,992,000
and Alliance Bank, National Association, Austin, Texas (17616), with	81,144,000
merged June 14, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

OZONA NATIONAL BANK,
Ozona, Texas, and The Wimberly Bank, Wimberly, Texas

Names of institutions and type of transaction	Total assets
Ozona National Bank, Ozona, Texas (7748), with	$54,305,000
and The Wimberly Bank, Wimberly, Texas, with	23,282,000
merged June 14, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FARMERS & MERCHANTS NATIONAL BANK OF NOCONA,
Nocona, Texas, and Parker Square State Bank, Wichita Falls, Texas

Names of institutions and type of transaction	Total assets
Farmers & Merchants National Bank of Nocona, Nocona, Texas (7617), with	$30,000,000
and Parker Square State Bank, Wichita Falls, Texas, with	195,432,000
merged June 16, 1990, under charter 7617 and title "Parker Square Bank, National Association." The merged bank at date of merger had	222,985,000

* * *

TEXAS COMMERCE BANK-RIO GRANDE VALLEY,
Brownsville, Texas, and Texas Commerce Bank-McAllen, National Association, McAllen, Texas

Names of institutions and type of transaction	Total assets
Texas Commerce Bank-Rio Grande Valley, Brownsville, Texas, with	$469,514,000
and Texas Commerce Bank-McAllen, National Association (14635), with	433,057,000
merged June 21, 1990, under charter 14635 and title "Texas Commerce Bank-Rio Grande Valley, National Association." The merged bank at date of merger had	900,889,000

* * *

HIBERNIA NATIONAL BANK IN TEXAS,
Pflugerville, Texas, and Centre National Bank-Farmers Branch, Farmers Branch, Texas

Names of institutions and type of transaction	Total assets
Hibernia National Bank in Texas, Pflugerville, Texas (22070), with	$667,992,000
and Centre National Bank-Farmers Branch, Farmers Branch, Texas (18170), with	39,656,000
merged June 21, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE GAINESVILLE NATIONAL BANK IN GAINESVILLE,
Gainesville, Texas, and The Valley View National Bank, Valley View, Texas

Names of institutions and type of transaction	Total assets
The Gainesville National Bank in Gainesville, Gainesville, Texas (13698), with	$102,917,000
and The Valley View National Bank, Valley View, Texas (12711), with	12,969,000
merged June 28, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

GUARANTY NATIONAL BANK,
Austin, Texas, and Georgetown National Bank, Georgetown, Texas

Names of institutions and type of transaction	Total assets
Guaranty National Bank, Austin, Texas (17513), with	$22,933,000
and Georgetown National Bank, Georgetown, Texas (17711), with	29,158,000
merged June 30, 1990, under charter 17513 and title "Hartland Bank, National Association." The merged bank at date of merger had	52,091,000

* * *

JEFFERSON NATIONAL BANK,
Charlottesville, Virginia, and Jefferson National Bank/Tidewater, Chesapeake, Virginia

Names of institutions and type of transaction	Total assets
Jefferson National Bank, Charlottesville, Virginia (6031), with	$1,396,321,000
and Jefferson National Bank/Tidewater, Chesapeake, Virginia (22025), with	115,867,000
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	1,512,188,000

* * *

VALLEY FIRST NATIONAL BANK,
Rhinelander, Wisconsin, and The Peoples State Bank, Three Lakes, Wisconsin

Names of institutions and type of transaction	Total assets
Valley First National Bank, Rhinelander, Wisconsin (4312), with	$82,952,000
and The Peoples State Bank, Three Lakes, Wisconsin, with	19,164,000
merged April 7, 1990, under charter and title of the former. The merged bank at date of merger had	110,879,000

* * *

SOUTHTRUST BANK OF ALABAMA, NATIONAL ASSOCIATION,
Birmingham, Alabama, and Guaranty Federal Savings and Loan Association, Birmingham, Alabama*

Names of institutions and type of transaction	Total assets
Southtrust Bank of Alabama, National Association, Birmingham, Alabama (14569), with	---
and Guaranty Federal Savings and Loan Association, Birmingham, Alabama, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SOUTHTRUST BANK, NATIONAL ASSOCIATION,
Montgomery, Alabama, and Guaranty Federal Savings and Loan Association, Birmingham, Alabama*

Names of institutions and type of transaction	Total assets
Southtrust Bank, National Association, Montgomery, Alabama (15441), with	$262,327,000
and Guaranty Federal Savings and Loan Association, Birmingham, Alabama, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SOUTHTRUST BANK OF HUNTSVILLE, NATIONAL ASSOCIATION,
Huntsville, Alabama, and Guaranty Federal Savings and Loan Association, Birmingham, Alabama*

Names of institutions and type of transaction	Total assets
Southtrust Bank of Huntsville, National Association, Huntsville, Alabama (15267), with	$329,236,000
and Southtrust Federal Savings and Loan Association, Birmingham, Alabama, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

*Merger transaction involving a failed savings and loan and a national bank that used either an interim savings bank or a state chartered bank as the acquisition vehicle for the acquiring national bank.

CITIZENS NATIONAL BANK,
Valley, Alabama, and Phoenix Federal Savings & Loan Association, Phoenix City, Alabama

Names of institutions and type of transaction	Total assets
Citizens National Bank, Valley, Alabama, (15090), with	$38,614,000
and Phoenix Federal Savings & Loan Association, Phoenix City, Alabama, with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date merger had	---

* * *

FORT RUCKER NATIONAL BANK,
Fort Rucker, Alabama, and Phoenix Federal Savings & Loan Association, Phoenix City, Alabama

Names of institutions and type of transaction	Total assets
Fort Rucker National Bank, Fort Rucker, Alabama (15658), with	$39,222,000
and Phoenix Federal Savings & Loan Association, Phoenix City, Alabama with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK OF HAMILTON,
Hamilton, Alabama, and Phoenix Federal Savings & Loan Association, Phoenix City, Alabama

Names of institutions and type of transaction	Total assets
First National Bank of Hamilton, Hamilton, Alabama (16579), with	$41,126,000
and Phoenix Federal Savings & Loan, Hamilton, Alabama with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BILTMORE INVESTORS BANK, NATIONAL ASSOCIATION,
Phoenix, Arizona, and Sentinel Federal Savings and Loan Association, Phoenix, Arizona

Names of institutions and type of transaction	Total assets
Biltmore Investors Bank, National Association, Phoenix, Arizona (18694), with	$32,855,000
and Sentinel Federal Savings and Loan Association, Phoenix, Arizona, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK OF PHILLIPS COUNTY,
Helena, Arkansas, and Capital Federal Savings and Loan Association, Little Rock, Arkansas

Names of institutions and type of transaction	Total assets
First National Bank of Phillips County, Helena, Arkansas (13520), with	$76,128,000
and Capital Federal Savings and Loan Association, Little Rock, Arkansas, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK OF AMERICA, N.T. & S.A.,
San Francisco, California, and First Federal Savings & Loan Association of Bakersfield, Bakersfield, California

Names of institutions and type of transaction	Total assets
Bank of America, N.T. & S.A., San Francisco, California (13044), with	$88,306,000,000
First Federal Savings & Loan Associaticn of Bakersfield, Bakersfield, California, with	---
merged April 27, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK OF AMERICA, N.T. & S.A.,
San Francisco, California, and Guardian Savings & Loan Association, Bakersfield, California

Names of institutions and type of transaction	Total assets
Bank of America, N.T. & S.A., San Francisco, California (13044), with	$88,306,000,000
and Guardian Savings & Loan Association, Bakersfield, California, with	---
merged April 27 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FRONTIER BANK, NATIONAL ASSOCIATION, La Palma, California, and Westco Savings Bank, F.S.B., Wilmington, California

Names of institutions and type of transaction	Total assets
Frontier Bank, National Association, La Palma, California (17767), with	$78,659,000
and Westco Savings Bank, F.S.B. Wilmington, California, with	---
merged April 27, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SECURITY PACIFIC NATIONAL BANK,
Los Angeles, California, and Washington Savings & Loan Association, Stockton, California

Names of institutions and type of transaction	Total assets
Security Pacific National Bank, Los Angeles, California (2491), with	$47,533,669,000
Washington Savings & Loan Association, Stockton, California, with	---
merged May 11, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FINANCIAL CENTER BANK, NATIONAL ASSOCIATION,
San Francisco, California, and Cabrillo Federal Savings Bank, San Jose, California

Names of institutions and type of transaction	Total assets
The Financial Center Bank, National Association, San Francisco, California (18158), with	$239,993,000
and Cabrillo Federal Savings Bank, San Jose, California, with	---
merged May 11, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

MISSION NATIONAL BANK,
San Francisco, California, and City Federal Savings and Loan Association, Oakland, California

Names of institutions and type of transaction	Total assets
Mission National Bank, San Francisco, California (17176), with	$28,039,000
and City Federal Savings and Loan Association, Oakland, California	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SAN MATEO COUNTY NATIONAL BANK,
San Mateo, California, and Peninsula Federal Savings Association, San Francisco, California

Names of institutions and type of transaction	Total assets
San Mateo County National Bank, San Mateo, California (18689), with	$28,648,000
and Peninsula Federal Savings Association, San Francisco, California, with	---
merged June 22, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SECURITY PACIFIC NATIONAL BANK,
Los Angeles, California, and Gibraltar Savings, F.A., Simi Valley, California

Names of institutions and type of transaction	Total assets
Security Pacific National Bank, Los Angeles, California (2491), with	$47,533,669,000
and Gibraltar Savings, F.A., Simi Valley, California, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK OF LAS ANIMAS,
Las Animas, Colorado, and Otero Savings, A Federal Savings and Loan Association, Las Animas, Colorado

Names of institutions and type of transaction	*Total assets*
The First National Bank of Las Animas, Las Animas, Colorado (6030), with	$31,868,000
and Otero Savings, A Federal Savings and Loan Association, Las Animas, Colorado, with	---
merged May 25, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

MOUNTAIN NATIONAL BANK,
Woodland Park, Colorado, and Rocky Mountain Savings, F.S.B., Woodland Park, Colorado*

Names of institutions and type of transaction	*Total assets*
Mountain National Bank, Woodland Park, Colorado (17424), with	$16,700,000
and Rocky Mountain Savings, F.S.B., Woodland Park, Colorado, with	---
merged June 22, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE WESTERN NATIONAL BANK OF COLORADO,
Colorado Springs, Colorado, and First Federal Savings and Loan Association, Colorado Springs, Colorado

Names of institutions and type of transaction	*Total assets*
The Western National Bank of Colorado, Colorado Springs, Colorado (18096), with	$11,128,000
and First Federal Savings and Loan Association, Colorado Springs, Colorado, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE WESTERN NATIONAL BANK OF COLORADO SPRINGS,
Colorado Springs, Colorado, and First Federal Savings and Loan Association, Colorado Springs, Colorado

Names of institutions and type of transaction	*Total assets*
The Western National Bank of Colorado Springs, Colorado Springs, Colorado (15383), with	$71,284,000
First Federal Savings and Loan Association, Colorado Springs, Colorado, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

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THE WESTERN NATIONAL BANK OF ACADEMY BOULEVARD,
Colorado Springs, Colorado, and First Federal Savings and Loan Association, Colorado Springs, Colorado

Names of institutions and type of transaction	*Total assets*
The Western National Bank of Academy Boulevard, Colorado Springs, Colorado (22289), with	---
First Federal Savings and Loan Association, Colorado Springs, Colorado, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BARNETT BANK OF SOUTH FLORIDA, NATIONAL ASSOCIATION,
Miami, Florida, and Lincoln Federal Savings and Loan Association, Miami, Florida

Names of institutions and type of transaction	*Total assets*
Barnett Bank of South Florida, National Association, Miami, Florida (13828), with	$6,038,764,000
and Lincoln Federal Savings and Loan Association, Miami, Florida, with	---
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BARNETT BANK OF SOUTH FLORIDA, NATIONAL ASSOCIATION,
Miami, Florida, and Royal Palm Federal Savings and Loan Association, West Palm Beach, Florida*

Names of institutions and type of transaction	*Total assets*
Barnett Bank of South Florida, National Association, Miami, Florida (13828), with	$6,038,764,000
and Royal Palm Federal Savings and Loan Association, West Palm Beach Florida, with	---
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK OF ATLANTA,
Atlanta, Georgia, and Great Southern Federal Savings and Loan Association, Savannah, Georgia*

Names of institutions and type of transaction	Total assets
The First National Bank of Atlanta, Atlanta, Georgia (1559), with	$8,347,269,000
and Great Southern Federal Savings and Loan Association, Savannah, Georgia, with	---
merged June 22, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST MIDWEST BANK ILLINOIS, NATIONAL ASSOCIATION,
Joliet, Illinois, and Peoples Savings & Loan Association, F.A., Streator, Illinois

Names of institutions and type of transaction	Total assets
First Midwest Bank Illinois, National Association, Joliet, Illinois (1773), with	$704,275,000
and Peoples Savings & Loan Association, F.A., Streator, Illinois, with	---
merged May 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

MARQUETTE NATIONAL BANK,
Chicago, Illinois, and American Security Federal Savings and Loan Association, Chicago, Illinois

Names of institutions and type of transaction	Total assets
Marquette National Bank, Chicago, Illinois (14504), with	$453,258,000
and American Security Federal Savings and Loan Association, Chicago, Illinois, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

AMERITRUST NATIONAL BANK, MICHIANA,
Elkhart, Indiana, and Pioneer Savings, F.A., Plymouth, Indiana*

Names of institutions and type of transaction	Total assets
Ameritrust National Bank, Michiana, Elkhart, Indiana (206), with	$984,470,000
and Pioneer Savings, F.A., Plymouth, Indiana, with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST INTERSTATE BANK OF SPENCER, NATIONAL ASSOCIATION,
Spencer, Iowa, and First Federal Savings and Loan Association of Estherville, Estherville, Iowa

Names of institutions and type of transaction	Total assets
First Interstate Bank of Spencer, National Association, Spencer, Iowa (15218), with	$54,344,000
and First Federal Savings and Loan Association of Estherville, Estherville, Iowa, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

UNION NATIONAL BANK OF WICHITA,
Wichita, Kansas, and First Federal Savings and Loan Association of Hutchinson, Hutchinson, Kansas*

Names of institutions and type of transaction	Total assets
Union National Bank of Wichita, Wichita, Kansas (11010), with	$404,008,000
and First Federal Savings and Loan Association1 of Hutchinson, Hutchinson, Kansas	---
merged April 20, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK OF MEDICINE LODGE,
Medicine Lodge, Kansas, and Barber County Savings and Loan Association, Medicine Lodge, Kansas

Names of institutions and type of transaction	Total assets
The First National Bank of Medicine Lodge, Medicine Lodge, Kansas (10575), with	$44,134,000
and Barber County Federal Savings and Loan Association, Medicine Lodge, Kansas, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE CITIZENS NATIONAL BANK OF FORT SCOTT,
Fort Scott, Kansas, and Mid-America Federal Savings and Loan Association, Parsons, Kansas

Names of institutions and type of transaction	Total assets
The Citizens National Bank of Fort Scott, Fort Scott, Kansas (3175), with	$73,675,000
and Mid-America Federal Savings and Loan Association, Parsons, Kansas	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE GIRARD NATIONAL BANK,
Girard, Kansas, and Peoples Savings and Loan Association, Parsons, Kansas

Names of institutions and type of transaction	Total assets
The Girard National Bank, Girard, Kansas (13347), with	$70,380,000
and Peoples Savings and Loan Association, Parsons, Kansas, with	---
merged May 4, 1990 under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK IV TOPEKA, NATIONAL ASSOCIATION,
Topeka, Kansas, and Topeka Savings, Federal Savings and Loan Association, Topeka, Kansas

Names of institutions and type of transaction	Total assets
Bank IV Topeka, National Association, Topeka, Kansas (3078), with	$457,891,000
and Topeka Savings, Federal Savings and Loan Association, Topeka, Kansas, with	---
merged May 11, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK IV TOPEKA, NATIONAL ASSOCIATION,
Topeka, Kansas, and Shawnee Federal Savings and Loan Association, Topeka, Kansas

Names of institutions and type of transaction	Total assets
Bank IV Topeka, National Association, Topeka, Kansas (3078), with	$457,891,000
and Shawnee Federal Savings and Loan Association, Topeka, Kansas, with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK AND TRUST,
Salina, Kansas, and First of Kansas Savings, F.S. & L.A., Hays, Kansas

Names of institutions and type of transaction	Total assets
First National Bank and Trust, Salina, Kansas (4742), with	$212,429,000
and First of Kansas Savings, F.S. & L.A., Hays, Kansas, with	---
merged June 1, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK IV OLATHE, NATIONAL ASSOCIATION,
Olathe, Kansas, and Anchor Federal Savings and Loan Association, Kansas City, Kansas*

Names of institutions and type of transaction	Total assets
Bank IV Olathe, National Association, Olathe, Kansas (21129), with	$179,692,000
and Anchor Federal Savings and Loan Association, Kansas City, Kansas, with	---
merged June 22, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

ANNAPOLIS NATIONAL BANK,
Annapolis, Maryland, and Gibraltar Savings & Loan Association, F.A., Annapolis, Maryland

Names of institutions and type of transaction	Total assets
Annapolis National Bank, Annapolis, Maryland (21961), with	---
and Gibraltar Savings & Loan Association, F.A., Annapolis, Maryland	---
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NATIONAL BANK OF DETROIT,
Detroit, Michigan, and New Guaranty Federal Savings and Loan Association, Taylor, Michigan

Names of institutions and type of transaction	*Total assets*
National Bank of Detroit, Detroit, Michigan (13671), with	$17,017,439,000
and New Guaranty Federal Savings and Loan Association, Taylor, Michigan, with	---
merged April 27, 1990, under charter and title of the former. The merged bank at date merger had	---

* * *

TRUSTMARK NATIONAL BANK,
Jackson, Mississippi, and Unifirst Bank of Savings, F.S. & L.A., Jackson, Mississippi*

Names of institutions and type of transaction	*Total assets*
Trustmark National Bank, Jackson, Mississippi (10523), with	$3,112,952,000
and Unifirst Bank of Savings, F.S. & L.A., Jackson, Mississippi, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

MERCHANTS NATIONAL BANK, VICKSBURG, MISSISSIPPI,
Vicksburg, Mississippi, and Unifirst Bank of Savings, F.S.L.A., Vicksburg, Mississippi

Names of institutions and type of transaction	*Total assets*
Merchants National Bank, Vicksburg, Mississippi Vicksburg, Mississippi (3430), with	$153,558,000
Unifirst Bank of Savings, F.S.L.A., Vicksburg, Mississippi, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

UNITED MISSOURI BANK OF KANSAS CITY, NATIONAL ASSOCIATION,
Kansas City, Missouri, and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri

Names of institutions and type of transaction	*Total assets*
United Missouri Bank of Kansas City, National Association, Kansas City, Missouri (13936), with	---
and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

COMMERCE BANK OF ST. JOSEPH, NATIONAL ASSOCIATION,
St. Joseph, Missouri, and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri

Names of institutions and type of transaction	*Total assets*
Commerce Bank of St. Joseph, National Association, St. Joseph, Missouri (16947), with	$254,273,000
and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

COMMERCE BANK OF KANSAS CITY, NATIONAL ASSOCIATION,
Kansas City, Missouri, and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri

Names of institutions and type of transaction	*Total assets*
Commerce Bank of Kansas City, National Association, Kansas City, Missouri (15985), with	$1,603,791,000
and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

STERLING NATIONAL BANK,
Sugar Creek, Missouri, and Blue Valley Federal Savings and Loan Association, Kansas City, Missouri

Names of institutions and type of transaction	*Total assets*
Sterling National Bank, Sugar Creek, Missouri, (15169), with	---
Blue Valley Federal Savings and Loan Association, Kansas City, Missouri, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SOUTH SIDE NATIONAL BANK IN ST. LOUIS,
St. Louis, Missouri, and St. Louis County Savings Association, F.A., St. Louis, Missouri*

Names of institutions and type of transaction	Total assets
South Side National Bank in St. Louis, St. Louis, Missouri (14128), with	$315,732,000
and St. Louis County Savings Association, F.A., St. Louis, Missouri, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK,
North Platte, Nebraska, and Platte Valley Federal Savings & Loan Association, Gering, Nebraska

Names of institutions and type of transaction	Total assets
First National Bank, North Platte, Nebraska (3496), with	$146,565,000
and Platte Valley Federal Savings & Loan Association, Gering, Nebraska, with	---
merged May 11, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

AMERICAN NATIONAL BANK,
Nebraska City, Nebraska, and Midwest Federal Savings and Loan Association, Nebraska City, Nebraska

Names of institutions and type of transaction	Total assets
American National Bank, Nebraska City, Nebraska (22274), with	---
and Midwest Federal Savings and Loan Association, Nebraska City, Nebraska, with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE FIRST NATIONAL BANK OF YORK,
York, Nebraska, and First Federal Savings Association of York, York, Nebraska*

Names of institutions and type of transaction	Total assets
The First National Bank of York, York, Nebraska (2683), with	$139,230,000
and First Federal Savings Association of York, York, Nebraska, with	---
merged June 22, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK IN ALBUQUERQUE,
Albuquerque, New Mexico, and American Federal Savings & Loan Association, Albuquerque, New Mexico

Names of institutions and type of transaction	Total assets
First National Bank in Albuquerque, Albuquerque, New Mexico (13814), with	$1,403,002,000
and American Federal Savings & Loan Association, Albuquerque, New Mexico, with	---
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST NATIONAL BANK IN ALBUQUERQUE,
Albuquerque, New Mexico, and New Mexico Federal Savings Association, Albuquerque, New Mexico*

Names of institutions and type of transaction	Total assets
First National Bank in Albuquerque, Albuquerque, New Mexico, (13814), with	$1,403,002,000
and New Mexico Federal Savings Association, Albuquerque, New Mexico, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE CHASE MANHATTAN BANK, NATIONAL ASSOCIATION,
New York, New York, and The Seamen's Bank for Savings, F.S.B., New York, New York

Names of institutions and type of transaction	Total assets
The Chase Manhattan Bank, National Association, New York, New York (2370), with	$84,136,740,000
and The Seamen's Bank for Savings, F.S.B., New York, New York, with	---
merged April 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE AMERICAN NATIONAL BANK AND TRUST COMPANY OF SAPULPA, OKLAHOMA,
Sapulpa, Oklahoma, and Family Savings Bank, F.S.B., Sapulpa, Oklahoma

Names of institutions and type of transaction	*Total assets*
The American National Bank and Trust Company of Sapulpa, Oklahoma, Sapulpa, Oklahoma (7788), with	$133,619,000
and Family Savings Bank, F.S.B., Sapulpa, Oklahoma, with	---
merged May 5, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE PEOPLES NATIONAL BANK OF CHECOTAH,
Checotah, Oklahoma, and Cross Roads Savings & Loan Association, F.A., Checotah, Oklahoma

Names of institutions and type of transaction	*Total assets*
The Peoples National Bank of Checotah, Checotah, Oklahoma, (10051), with	$64,487,000
and Cross Roads Savings & Loan Association, F.A., Checotah, Oklahoma, with	---
merged May 11, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

THE UNION NATIONAL BANK OF PITTSBURGH,
Pittsburgh, Pennsylvania, and Horizon Financial F.A., Southampton, Pennsylvania*

Names of institutions and type of transaction	*Total assets*
The Union National Bank of Pittsburgh, Pittsburgh, Pennsylvania, (705), with	$2,399,658,000
and Horizon Financial F.A., Southampton, Pennsylvania, with	---
merged May 25, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NATIONAL BANK OF COMMERCE,
Memphis, Tennessee, and Germantown Trust Savings Bank, Germantown, Tennessee

Names of institutions and type of transaction	*Total assets*
National Bank of Commerce, Memphis, Tennessee (13681), with	$1,637,973,000
and Germantown Trust Savings Bank, Germantown, Tennessee, with	---
merged May 18, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

EXECUTIVE PARK NATIONAL BANK,
Kingsport, Tennessee, and Lincoln Federal Savings & Loan Association, Mount Carmel, Tennessee

Names of institutions and type of transaction	*Total assets*
Executive Park National Bank, Kingsport, Tennessee (18583), with	$37,223,000
and Lincoln Federal Savings & Loan Association, Mount Carmel, Tennessee, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION OF MEMPHIS,
Memphis, Tennessee, and Home Federal Savings and Loan Association of Memphis, Memphis, Tennessee

Names of institutions and type of transaction	*Total assets*
First Commercial Bank, National Association of Memphis, Memphis, Tennessee (22278), with	---
and Home Federal Savings and Loan Association of Memphis, Memphis, Tennessee, with	---
merged June 15, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and Meridan Savings Association, Arlington, Texas

Names of institutions and type of transaction	*Total assets*
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
and Meridan Savings Association, Arlington, Texas, with	---
merged April 13, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and Heritagebanc Savings Association, Duncanville, Texas

Names of institutions and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
and Heritagebanc Savings Association, Duncanville, Texas, with	---
merged April 27, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

BANK ONE, TEXAS, NATIONAL ASSOCIATION,
Dallas, Texas, and First State, F.S.A., San Antonio, Texas

Names of institutions and type of transaction	Total assets
Bank One, Texas, National Association, Dallas, Texas (21969), with	$12,271,581,000
and First State, F.S.A., San Antonio, Texas, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST COMMUNITY BANK, NATIONAL ASSOCIATION,
Alice, Texas, and La Hacienda Savings Association, San Antonio, Texas

Names of institutions and type of transaction	Total assets
First Community Bank, National Association Alice, Texas (17619), with	---
and La Hacienda Savings Association, San Antonio, Texas, with	---
merged May 4, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

FIRST CITY, TEXAS-BEAUMONT, NATIONAL ASSOCIATION,
Beamont, Texas, and Spindletop Savings Association, F.A., Beamont, Texas

Names of institutions and type of transaction	Total assets
First City, Texas-Beamont, National Association, Beamont, Texas (4017), with	$719,248,000
Spindletop Savings Association, F.A., Beamont, Texas, with	---
merged June 1, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and East Texas Savings and Loan Association, F.A., Tyler, Texas

Names of institutions and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$33,748,419,000
East Texas Savings and Loan Association, F.A., Tyler Texas, with	---
merged June 8, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

CITIZENS NATIONAL BANK OF HENDERSON,
Henderson, Texas, and General Savings Association, Henderson, Texas

Names of institutions and type of transaction	Total assets
Citizens National Bank of Henderson, Henderson, Texas (13443), with	$203,317,000
and General Savings Association, Henderson, Texas, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

ZIONS FIRST NATIONAL BANK,
Salt Lake City, Utah, and Desert Savings and Loan Association, F.A., Salt Lake City, Utah

Names of institutions and type of transaction	Total assets
Zions First National Bank, Salt Lake City, Utah (4341), with	$2,464,627,000
and Desert Savings and Loan Association, F.A., Salt Lake City, Utah, with	---
merged May 25, 1990, under charter and title of the former. The merged bank at date of merger had	---

* * *

SECURITY PACIFIC BANK WASHINGTON, NATIONAL ASSOCIATION,
Seattle, Washington, and Gibraltar Savings, Federal Savings Bank, Seattle, Washington

Names of institutions and type of transaction	Total assets
Security Pacific Bank Washington, National Association, Seattle, Washington (4375), with	$8,073,701,000
and Gibraltar Savings, Federal Savings Bank, Seattle, Washington, with	---
merged June 29, 1990, under charter and title of the former. The merged bank at date of merger had	---

• • •

THE FIRST NATIONAL BANK OF HUDSON,
Hudson, Wisconsin, and Durano Federal Savings & Loan Association, Durano, Wisconsin

Names of institutions and type of transaction	Total assets
The First National Bank of Hudson, Hudson, Wisconsin (95), with	$51,739,000
and Durano Federal Savings & Loan Association, Durano, Wisconsin, with	---
merged May 25, 1990, under charter and title of the former. The merged bank at date of merger had	---

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Structure Tables

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NOTE: Tables provided by the Bank Organization and Structure and the Multinational Banking departments.

Changes in the structure of the national banking system, by states, January 1 to June 30, 1990

	In operation Dec. 31, 1989	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation June 30, 1990
						Converted to state banks	Merged with state banks	
Alabama	53	1	0	0	0	0	0	54
Alaska	4	0	0	0	0	0	0	4
Arizona	14	0	0	0	0	0	2	12
Arkansas	82	0	0	0	0	0	1	81
California	172	3	3	0	0	0	2	170
Colorado	254	13	3	0	0	3	2	259
Connecticut	20	0	0	0	0	0	0	20
Delaware	18	0	0	0	0	1	0	17
District of Columbia	25	1	0	0	0	0	0	26
Florida	176	5	3	0	1	0	1	176
Georgia	65	1	0	0	0	0	0	66
Hawaii	3	0	0	0	0	0	0	3
Idaho	8	0	0	0	0	0	0	8
Illinois	365	9	7	0	0	1	2	364
Indiana	94	0	2	0	0	0	0	92
Iowa	102	2	8	0	0	0	0	96
Kansas	164	3	0	0	0	0	0	167
Kentucky	84	2	1	0	0	0	0	85
Louisiana	47	0	2	0	0	0	0	45
Maine	7	0	0	0	0	0	0	7
Maryland	27	2	1	0	0	0	0	28
Massachusetts	40	0	2	0	0	0	1	37
Michigan	79	0	5	0	0	0	0	74
Minnesota	156	1	4	0	0	0	0	153
Mississippi	28	0	0	0	0	0	0	28
Missouri	93	0	1	0	0	0	0	92
Montana	56	0	9	0	0	0	0	47
Nebraska	112	1	0	0	0	0	0	113
Nevada	7	0	0	0	0	0	0	7
New Hampshire	14	0	0	0	0	0	1	13
New Jersey	58	1	2	0	0	0	0	57
New Mexico	41	0	0	0	0	0	0	41
New York	101	0	2	0	0	0	0	99
North Carolina	17	1	0	0	0	1	1	16
North Dakota	30	0	1	0	0	0	0	29
Ohio	136	1	2	1	1	0	0	133
Oklahoma	174	0	2	0	0	0	2	170
Oregon	8	0	0	0	0	0	0	8
Pennsylvania	170	0	1	0	0	0	1	168
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	29	1	0	0	0	0	0	30
South Dakota	25	0	0	2	0	0	0	23
Tennessee	52	3	4	0	0	0	0	51
Texas	705	2	33	0	0	0	24	650
Utah	7	0	0	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	53	1	1	0	0	0	0	53
Washington	26	0	0	0	0	0	0	26
West Virginia	83	0	2	0	0	0	1	80
Wisconsin	116	1	0	0	0	0	1	116
Wyoming	33	0	0	0	0	0	0	33
Puerto Rico	1	0	0	0	0	0	0	1
United States	4,251	55	101	3	2	6	42	4,152

NOTES: Organized and opened for business includes all state banks converted to national banks as well as all newly formed national banks. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a nationally chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a nationally chartered bank.

Voluntary liquidations include only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchase and assumptions are included in the "merged" columns.

Payouts include all failed national banks where FDIC is named receiver and no other depository institution is named as successor. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a state-chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a state-chartered bank.

Applications for national bank charters, January 1 to June 30, 1990

	Received	Approved	Denied	Charters issued	State-chartered banks converted to national banks	Trust companies*	Nonbank banks*
Alabama	0	0	0	0	1	0	0
Alaska	0	0	0	0	0	0	0
Arizona	0	1	0	1	0	0	0
Arkansas	2	1	0	0	0	1	0
California	1	5	0	3	0	0	0
Colorado	6	7	1	7	6	0	0
Connecticut	1	0	0	0	0	1	0
Delaware	1	0	0	0	0	0	1
District of Columbia	0	0	0	1	0	0	0
Florida	2	5	0	5	0	0	0
Georgia	2	4	0	1	0	0	1
Hawaii	0	0	0	0	0	0	0
Idaho	0	0	0	0	0	0	0
Illinois	0	1	0	2	7	0	0
Indiana	0	1	0	0	0	0	0
Iowa	0	0	0	0	2	0	0
Kansas	1	1	0	2	1	0	0
Kentucky	1	0	0	2	0	0	0
Louisiana	0	0	0	0	0	0	0
Maine	1	0	0	0	0	0	0
Maryland	1	0	1	2	0	0	0
Massachusettes	2	1	1	0	0	0	0
Michigan	1	0	0	0	0	0	0
Minnesota	0	1	0	1	0	0	0
Mississippi	0	0	0	0	0	0	0
Missouri	2	1	0	0	0	0	0
Montana	0	1	0	0	0	0	0
Nebraska	2	1	0	0	0	0	0
Nevada	0	0	0	0	0	0	0
New Hampshire	1	1	0	0	0	0	0
New Jersey	2	2	0	1	0	0	0
New Mexico	0	0	0	0	0	0	0
New York	1	0	0	0	0	0	0
North Carolina	0	0	0	1	0	0	0
North Dakota	0	0	0	0	0	0	0
Ohio	3	0	0	1	0	1	1
Oklahoma	0	0	0	0	0	0	0
Oregon	1	1	0	0	0	0	0
Pennsylvania	1	2	0	0	0	0	0
Rhode Island	0	0	0	0	0	0	0
South Carolina	1	2	0	1	0	0	0
South Dakota	0	0	0	0	0	0	0
Tennessee	0	0	0	2	1	0	0
Texas	0	0	0	0	2	0	0
Utah	0	0	0	0	0	0	0
Vermont	0	0	0	0	0	0	0
Virginia	2	1	0	1	0	1	0
Washington	0	0	0	0	0	0	0
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	1	0	0
Wyoming	0	0	0	0	0	0	0
Total	38	40	3	34	21	4	3

*These figures are included in the figures for received, approved, denied, and newly organized

Applications for new national bank charters, approved and rejected, by states, January 1 to June 30, 1990

	Approved	Rejected
ARIZONA		
Carter Hawley Hale National Bank of Arizona, Phoenix	Apr 23	———
ARKANSAS		
Arvest Trust Company, National Association, Rogers	Apr 20	———
CALIFORNIA		
Valley Merchants Bank, National Association, Hemet	Jan 26	———
Mojave Desert Bank, National Association, Mojave	Apr 13	———
Wells Fargo Institutional Trust Company, National Association, San Francisco	Mar 26	———
Temecula Valley National Bank, Temecula	Feb. 22	———
Windsor Oaks National Bank, Windsor	Feb. 20	———
COLORADO		
Mesa National Bank – Glenwood Springs, Glenwood Springs	Feb. 2	———
Mesa National Bank – Clifton, Grand Junction	Feb. 2	———
Mesa National Bank – Patterson, Grand Junction	Feb. 2	———
American National Bank, Littleton	———	Jan. 31
Mesa National Bank – Montrose, Montrose	Feb 2	———
Mesa National Bank – Rifle, Rifle	Feb. 2	———
Mesa National Bank, Grand Junction	Feb 2	———
The Western National Bank of Academy Boulevard, Colorado Springs	June 29	———
FLORIDA		
Security National Bank, Clearwater	Jan. 4	———
Treasure Coast National Bank, Fort Pierce	Feb. 13	———
State Street Bank and Trust Company of Florida, National Association, Jacksonville	Apr. 17	———
Barnett Card Services Bank, National Association, Jacksonville	Feb. 9	———
Fifth Third Trust Company, National Association, Naples	Mar 23	———
GEORGIA		
The National Trust Company, Atlanta	June 11	———
Commercial Bank of Gwinnett, National Association, Lawrenceville	Mar. 1	———
Milton National Bank, Roswell	June 11	———
The Savannah Bank, National Association, Savannah	May 23	———
ILLINOIS		
LaSalle National Trust, National Association, Chicago	Mar 23	———
INDIANA		
American National Trust and Investment Management Company, Muncie	May 3	———
KANSAS		
Bank IV Hays, National Assocition, Hays	Jan 12	———
MARYLAND		
Equitable Bank-Potomac, National Association, Rockville	———	Apr 13
MASSACHUSETTS		
Anawon Trust, National Association, Attleboro	May 9	———
Wellesley National Bank, Wellesley	———	Mar 23
MINNESOTA		
Century Bank, National Association, Eden Prairie	Mar. 22	———
MISSOURI		
Commerce Bank of Platte County, National Association, Kansas City	June 21	———
MONTANA		
Mountain West Bank of Helena, National Association, Helena	June 12	———
NEBRASKA		
American National Bank, Nebraska City	May 18	———
Firstier Express Bank, National Association, Omaha	June 28	———

Applications for new national bank charters, approved and rejected, by states, January 1 to June 30, 1990 — Continued

	Approved	Rejected
NEW HAMPSHIRE		
First Deposit National Credit Card Bank, Concord	June 29	———
NEW JERSEY		
Amboy National Bank, Rocky Hill	June 30	———
LeHigh National Bank, Union Township	May 26	———
OREGON		
U.S. Bank National Association, Beaverton	June 29	———
PENNSYLVANIA		
Allentown National Bank, Allentown	June 6	———
First Commerce National Bank, Uniontown	Jan. 26	———
SOUTH CAROLINA		
Community National Bank of South Carolina, Columbia	Jan. 10	———
Summit National Bank, Greenville	Mar. 9	———
VIRGINIA		
Tysons National Bank, Vienna	June 6	———

New national bank charters issued, January 1 to June 30, 1990

Title and location of bank	*Charter number*	*Date open*
CALIFORNIA		
El Camino National Bank, Lompoc	22031	April 18
Inland Community Bank, National Association, Rialto	21660	April 12
Wells Fargo Institutional Trust Company, National Association, San Francisco	22121	April 2
COLORADO		
The Western National Bank of Academy Boulevard, Colorado Springs	22289	June 29
Mesa National Bank – Glenwood Springs, Glenwood Springs	22190	February 2
Mesa National Bank – Clifton, Grand Junction	22189	February 2
Mesa National Bank – Patterson, Grand Junction	22192	February 2
Mesa National Bank, Grand Junction	22182	February 2
Mesa National Bank – Montrose, Montrose	22191	February 2
Mesa National Bank – Rifle, Rifle	22193	February 2
DISTRICT OF COLUMBIA		
Theodore Roosevelt National Bank, Washington	21647	January 29
FLORIDA		
Bancorp Trust Company, National Association, Naples	22037	February 17
Fifth Third Trust Company, National Association, Naples	22154	June 18
Enterprise National Bank of Palm Beach, Palm Beach Gardens	22008	April 10
First National Bank of Bradford County, Starke	22005	March 27
Citrus Bank, National Association, Vero Beach	21980	April 13
GEORGIA		
Clayton National Bank, Morrow	22002	March 8
ILLINOIS		
LaSalle National Trust, National Association, Chicago	22159	May 1
HRSI, National Association, Wood Dale	18767	April 2
KANSAS		
Bank IV Hays, National Association, Hays	22188	January 12
First American Bank, National Association, Lenexa	22015	May 7
KENTUCKY		
The National Bank of Corinth, Corinth	22246	April 19
Citizens National Bank, Grayson	21805	March 1
MARYLAND		
The Annapolis National Bank, Annapolis	21961	January 5
Prince George's National Bank, Landover	18770	March 15
MINNESOTA		
Roseville Community Bank, National Association, Roseville	22046	June 19
NEBRASKA		
American National Bank, Nebraska City	22274	May 18
NEW JERSEY		
Amboy National Bank, Rocky Hill	22288	June 29
NORTH CAROLINA		
Enterprise National Bank of the Piedmont, Winston Salem	22038	April 16
OHIO		
Morgan Bank, National Association, Hudson	18771	February 12
SOUTH CAROLINA		
Bank of Charleston, National Association, Charleston	21994	April 12
TENNESSEE		
Enterprise National Bank, Memphis	21972	March 14
First Commercial Bank, National Association of Memphis, Memphis	22278	June 15
VIRGINIA		
Patriot National Bank of Reston, Reston	22033	April 13

State-chartered banks converted to national banks, January 1 to June 30, 1990

Title and location of bank	Effective date	Total assets
ALABAMA		
Southtrust Bank of Randolph County, National Association (22166), conversion of Southtrust Bank of Randolph County, Roanoke	May 21	$ 42,441,000
COLORADO		
The Moffat County State Bank, National Association (22018), conversion of The Moffat County State Bank, Craig	January 1	32,690,000
The Colorado Bank and Trust Company, National Association (22022), conversion of The Colorado Bank and Trust Company, Delta	January 1	42,187,000
Fruita State Bank, National Association (22019), conversion of Fruita State Bank, Fruita	January 1	20,662,000
Bank of Manitou, National Association (22023), conversion of Bank of Manitou, Manitou Springs	January 1	14,865,000
Montrose State Bank, National Association (22020), conversion of Montrose State Bank, Montrose	January 1	13,984,000
Chaffee County Bank, National Association (22021), conversion of Chaffee County Bank, Salida	January 1	28,725,000
ILLINOIS		
Gary-Wheaton Bank of Fox Valley, National Association (22088), conversion of Gary-Wheaton Bank of Fox Valley, Aurora	March 16	122,789,000
Gary-Wheaton Bank of Batavia, National Association (22090), conversion of Gary-Wheaton Bank of Batavia, Batavia	March 16	126,969,000
First Chicago Bank of Bloomingdale, National Association (22085), conversion of First Chicago Bank of Bloomingdale, Bloomingdale	March 16	158,726,000
Gary-Wheaton Bank of Downers Grove, National Association (22091), conversion of Gary-Wheaton Bank of Downers Grove, Downers Grove	March 16	139,138,000
First of America Bank-Illinois, National Association (22084), conversion of First of America Bank – Peoria, Peoria	February 1	90,149,000
First Chicago Bank of St. Charles, National Association (22089), conversion of The First Chicago Bank of St. Charles, St. Charles	March 16	115,135,000
Gary-Wheaton Bank, National Association (22086), conversion of Gary-Wheaton Bank, Wheaton	March 16	734,223,000
IOWA		
Lee County Bank & Trust, National Association (22123), conversion of Lee County Savings Bank, Fort Madison	April 6	56,012,000
First Iowa National Bank (22211), conversion of Onslow Savings Bank, Onslow	June 18	10,753,000
KANSAS		
Bank IV McPherson, National Association (22144), conversion of McPherson Bank & Trust Company, McPherson	April 1	112,410,000
TENNESSEE		
First City National Bank (21597), conversion of First City, Federal Savings Bank, Memphis	February 1	13,780,000
TEXAS		
Texas Commerce Bank-Arlington, National Association (22199), conversion of Texas Commerce Bank-Arlington, Arlington	June 1	444,306,000
Texas Commerce Bank-San Antonio, National Association (22201), conversion of Texas Commerce Bank-San Antonio, San Antonio	June 1	332,775,000
WISCONSIN		
American National Bank and Trust Company of Wisconsin (22117), conversion of Citizens State Bank, Genoa City	March 1	15,750,000

National banks converted to state banks, January 1 to June 30, 1990

Title and location of bank	Effective date	Total assets
COLORADO		
First National Bank of Windsor, Windsor (8296)	January 1	20 000 000
National Bank of the Rockies in Boulder, Boulder (17466)	February 15	24,331 000
National Bank of the Rockies in Denver, Denver (20359)	February 15	16,942,000
DELAWARE		
Chase Manhattan Bank (USA), N A , Wilmington (17199)	June 22	9,388,000,000
ILLINOIS		
First Galesburg National Bank & Trust Company, Galesburg (241)	April 23	152,127,000
NORTH CAROLINA		
Central Carolina Bank & Trust Company, N.A., Durham (17850)	June 15	1,777,000

National banks merged into state banks, January 1 to June 30, 1990

Title and location of bank	Charter number	Effective date
ARIZONA		
Gateway National Bank, Phoenix	21023	February 8
Independent National Bank, Phoenix	18376	March 15
ARKANSAS		
Citizens National Bank, Walnut Ridge	14631	February 2
CALIFORNIA		
California City Bank, N.A., Orange	17818	February 23
Meridian National Bank, Concord	16836	January 1
COLORADO		
Dominion National Bank, Denver	17074	May 10
National City Bank of Denver, Denver	13098	June 14
FLORIDA		
Barnett Bank of Suwannee Valley, N.A., Live Oak	6055	May 18
ILLINOIS		
Magna Bank of Wood River, N.A., Wood River	11876	January 1
National Bank of Monticello, Monticello	13865	May 6
MASSACHUSETS		
BayBank Merrimack Valley, N.A., Andover	1129	March 3
The Home National Bank of Milford, Milford	2275	June 1
NEW HAMPSHIRE		
Wolfeboro National Bank, Wolfeboro	8147	January 5
NORTH CAROLINA		
Citizens National Bank, Winston-Salem	17560	January 1
OKLAHOMA		
American National Bank, Elk City	18580	June 28
First National Bank of Colbert, Colbert	10381	February 8
PENNSYLVANIA		
The First National Bank of East Smithfield, East Smithfield	10042	April 30
TEXAS		
Alvin Community Bank, National Association, Alvin	16903	April 1
Angelina National Bank, Lufkin	16856	January 31
Bacliff Bank, National Association, Bacliff	18483	June 28
Champions Point National Bank, Houston	18425	April 5
Citizens National Bank, Denton	16635	March 8
Commonwealth National Bank of Dallas, Dallas	15258	May 10
Fidelity Bank, N.A., San Antonio	18072	January 26
First Taylor National Bank, Taylor	3027	May 17
First National Bank of Garland, Garland	17392	March 29
First National Bank of San Marcos, San Marcos	3346	January 4
First National Bank of Woodville, Woodville	17996	June 29
Great Western Bank, N.A., Houston	18301	February 22
League City National Bank, League City	16784	April 1
Memorial Bank, National Association, Houston	18044	May 24
Midway National Bank, Dallas	18169	May 24
Peoples National Bank, Caldwell	18109	June 21
Peoples National Bank, Lufkin	17905	April 1
Plaza National Bank, Beaumont	18485	June 29
Richardson National Bank, Richardson	16395	May 3
Security National Bank, Elgin	18067	April 19
Signature Bank, N.A., Dallas	17906	April 26
Southwest National Bank, Austin	16956	June 28
University National Bank, College Station	15185	March 8
Willow Bend National Bank, Plano	17894	June 14
WEST VIRGINIA		
First National Bank of West Hamlin, West Hamlin	15406	January 1
[illegible]		
[illegible], N.A., Seymour	6575	January 31

National banks in voluntary liquidation, January 1 to June 30, 1990

Title and location of bank	Effective date	Total assets
OHIO		
The First National Bank of Jewett, Jewett (13150)	April 25	17,044,000
SOUTH DAKOTA		
First City Bank, National Association, Sioux (20152)	January 11	—
Ranchers National Bank of Winner, Winner (15045)	January 11	39,457,000

National banks liquidated under emergency procedures, January 1 to June 30, 1990

Title and location of bank	Effective date	Total assets
FLORIDA		
First American Bank and Trust, N.A., North Palm Beach (22150)	May 11	982,086,000
OHIO		
First Bank, National Association, Cleveland (16545)	March 9	—

*Mergers, January 1 to June 30, 1990**

	Transactions involving two or more operating banks	*Transactions involving a single operating bank*	*Total*
Received	220	24	244
Approved	196	15	211
Denied	2	0	2
Abandoned	3	1	4
Consummated	192	20	212

*Mergers is a generic term which includes mergers, consolidations and purchases and assumptions

Mergers consummated involving a single operating bank, January 1 to June 30, 1990

Date consummated	Merging banks Resulting bank	Total assets
	ARKANSAS	
	Interim First National Bank of Fort Smith, Fort Smith	
	The First National Bank of Fort Smith, Fort Smith	
March 30	The First National Bank of Fort Smith, Fort Smith (1950)	$372,262 000
	CALIFORNIA	
	Valley National Bank, Glendale	
	WF Interim Bank, National Association, San Francisco	
January 1	Valley National Bank, Glendale (14823)	286,405,000
	El Capitan National Bank, Sonora	
	El Capitan Interim National Bank, Sonora	
	El Capitan National Bank, Sonora (16464)	93,439,000
	FLORIDA	
	Merchant National Bank, Fort Myers	
	Merchant National Temporary Bank, Fort Myers	
April 16	Merchant National Bank, Fort Myers (21546)	41,353 000
	Central Interim National Bank, Winter Park	
	Central National Bank, Winter Park	
June 7	Central National Bank, Winter Park (21230)	36,242,000
	GEORGIA	
	First Security Interim National Bank, Norcross	
	First Security National Bank, Norcross	
January 2	First Security National Bank, Norcross (18584)	30,491,000
	ILLINOIS	
	Peoples National Bank of Kenwanee, Kewanee	
	Peoples Interim National Bank of Kenwanee, Kewanee	
February 8	Peoples National Bank of Kenwanee, Kewanee (14418)	105,835,000
	FNBA Interim National Bank, Amboy	
	The First National Bank in Amboy, Amboy	
February 28	The First National Bank in Amboy, Amboy (14244)	38,622,000
	McHenry Interim National Bank, McHenry	
	The First National Bank of McHenry, McHenry	
May 14	The First National Bank of McHenry, McHenry (15765)	62,615,000
	IOWA	
	FNB, National Association, Clarion	
	The First National Bank of Clarion, Clarion	
January 1	The First National Bank of Clarion, Clarion (3796)	99,999,000
	MICHIGAN	
	Huron Interim Bank, National Association, Rogers City	
	Huron National Bank, Rogers City	
May 8	Huron National Bank, Rogers City (16857)	16,023,000
	Keweenaw National Interim Bank, Hancock	
	The Superior National Bank and Trust Company of Hancock, Hancock	
June 30	Superior National Bank and Trust Company, Hancock (9087)	79,182,000
	NEBRASKA	
	Bellevue Interim Bank, National Association, Bellevue	
	First National Bank of Bellevue, Bellevue	
January 1	First National Bank of Bellevue, Bellevue (15096)	50,329,000
	NEW YORK	
	ONB National Bank, Owego	
	The Owego National Bank, Owego	
January 31	The Owego National Bank, Owego (2996)	34 832 000
	OHIO	
	First National Interim Bank, Zanesville	
	The First National Bank of Zanesville, Zanesville	
April 2	The First National Bank of Zanesville, Zanesville (164)	248 561 000

Mergers consummated involving a single operating bank, January 1 to June 30, 1990 — Continued

Date consummated	Merging banks Resulting bank	Total assets
	PENNSYLVANIA	
	The First National Bank of Palmerton, Palmerton The New First National Bank of Palmerton, Palmerton	
February 15	The First National Bank of Palmerton, Palmerton (8930)	164,737,000
	Peoples Interim, National Association, Lebanon The Peoples National Bank of Lebanon, Lebanon	
April 1	The Peoples National Bank of Lebanon, Lebanon (22092)	127,339,000
	Emlenton Interim National Bank, Emlenton The Farmers National Bank of Emlenton, Emlenton	
April 1	The Farmers National Bank of Emlenton, Emlenton (5481)	48,454,000
	TEXAS	
	Del Rio National Bank, Del Rio New Del Rio National Bank, Del Rio	
May 3	Del Rio National Bank, Del Rio (7433)	74,803,000
	WISCONSIN	
	New National Bank of Baldwin, Baldwin The First National Bank of Baldwin, Baldwin	
June 29	The First National Bank of Baldwin, Baldwin (10106)	56,963,000

Foreign branches of national banks, by region and country, December 31, 1989

Region and Country	Number
Africa	13
Egypt	3
Gabon	2
Ivory Coast	2
Kenya	2
Liberia	1
Senegal	1
Sudan	1
Tunisia	1
Asia and the Pacific	162
Brunei	2
Hong Kong	50
India	10
Indonesia	5
Japan	23
Korea	14
Macau	1
Malaysia	5
New Zealand	1
Pakistan	8
Philippines	9
Singapore	15
Sri Lanka	1
Taiwan	10
Thailand	3
Turkey	5
Caribbean	125
Bahamas	42
British Virgin Islands	2
Cayman Islands	62
Dominican Republic	12
Haiti	4
Jamaica	1
Netherlands Antilles	2
Central America	30
El Salvador	1
Guatemala	1
Mexico	5
Nicaragua	1
Panama	22
Europe	108
Austria	1
Belgium	4
Denmark	2
United Kingdom	36
France	7
Germany	7
Greece	21
Ireland	3
Italy	7
Monaco	2
Netherlands	2
Portugal	1
Spain	6
Switzerland	9
Middle East	11
Bahrain	3
Jordan	2
Oman	1
United Arab Emirates	5
South America	209
Argentina	90
Bolivia	1
Brazil	40
Chile	36
Ecuador	10
Paraguay	8
Peru	4
Uruguay	16
Venezuela	4
U.S Overseas Areas & Trust Territories	44
Guam	1
Puerto Rico	31
Virgin Islands	12
Total	702

Federal branches and agencies of foreign banks, by state

	Federal branches and agencies open January 1 1990	Applications January 1 to June 30 1990				Federal branches and agencies opened January 1 to June 30 1990	Federal branches and agencies closed January 1 to June 30 1990	Federal branches and agencies open June 30 1990
		Received	Approved	Disapproved	Withdrawn			
[illegible]	80	3	3	0	0	1	0	81
[illegible]								
California	4	0	0	0	0	0	0	4
District of Columbia	1	0	0	0	0	0	0	1
Illinois	1	0	0	0	0	0	0	1
New York	49	0	2	0	0	1	1	49
Limited federal branch								
Arizona	0	0	0	0	0	0	0	0
California	9	1	1	0	0	1	0	10
District of Columbia	3	1	0	0	0	0	0	3
Illinois	4	0	0	0	0	0	0	4
New York	8	1	0	0	0	0	0	8
Federal agency								
Florida	1	0	0	0	0	0	0	1

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NOTE: Tables produced by the Industry and Financial Analysis Division and the Multinational Banking Department. Beginning with this issue, certain tables have been changed to provide more current financial data and to include new items drawn from Reports of Condition and Income (call reports) of national banks. Data in different tables are not necessarily comparable due to differences in timing of reporting by banks.

Foreign branch assets and liabilities of national banks, December 31, 1989
(Dollar amounts in thousands)

Assets	
Cash and cash items in process of collection	$ 1,048,143
Balances with U S banks (including IBFs and foreign branches of U S banks)	8,103,944
Balances with foreign banks (including U S branches of foreign banks and IBFs)	38,695,534
Securities	10,421,478
Loans, Discounts, Overdrafts, and Leases	
A Secured by real estate	8,250,635
B To financial institutions	5,628,739
C To commercial and industrial borrowers	43,881,706
D. To non-U.S. govt. and official institutions	5,328,537
E. To all others	9,368,543
F. Less: unearned discount	354,346
G Total loans, net	72,103,814
Customers' liability on acceptances outstanding	1,917,265
Premises, furniture and fixtures	1,332,451
Accruals—interest earned, foreign exchange profits, etc.	3,363,324
Net due from other foreign branches of this bank	29,488,941
Net due from head office and U.S. branches of this bank	23,230,745
Net due from consolidated subsidiaries of this bank	10,734,087
Other assets	9,157,462
Total assets	209,597,188

Liabilities	
Deposits of U S banks (including IBFs and foreign branches of U S banks)	$ 9,509,993
Deposits of foreign banks (including U S branches of foreign banks and their IBFs)	28,983,849
Other deposits	101,698,311
Liabilities for borrowed money	8,597,100
Liability on acceptances executed and outstanding	1,423,067
Accrued taxes and other expenses	3,591,378
Net due to other foreign branches of this bank	17,766,641
Net due to head office and U.S branches of this bank	19,796,447
Net due to consolidated subsidiaries of this bank	12,374,095
Other liabilities	5,856,307
Total liabilities	209,597,188
Memoranda	
Standby letters of credit	10,822,316
Commercial letters of credit issued and outstanding	4,388,018
Guarantees and letters of indemnity	2,777,659
Commitments to purchase foreign currency and U S dollar exchange	867,536,549
Total interest bearing balances included in items 2 and 3	42,642,803
Total interest bearing deposits included in items 14, 15, and 16	131,502,898

Total foreign branch assets of national banks, year-end 1953–1989*
(Dollar amounts in thousands)

Year	Branches	Assets	Year	Branches	Assets
1953	NA	$ 1,682,919	1972	566	54,720,405
1954	NA	1,556,326	1973	621	83,304,441
1955	85	1,116,003	1974	649	99,810,999
1956	NA	1,301,883	1975	675	111,514,147
1957	NA	1,342,616	1976	635	134,790,497
1958	NA	1,405,020	1977	629	161,768,609
1959	NA	1,543,985	1978	646	180,712,782
1960	93	1,628,510	1979	667	217,611,974
1961	102	1,780,926	1980	672	242,763,325
1962	111	2,008,478	1981	710	274,776,705
1963	124	2,678,717	1982	767	272,989,320
1964	138	3,319,879	1983	769	275,180,362
1965	196	7,241,068	1984	800	231,507,751
1966	230	9,364,278	1985	786	223,313,493
1967	278	11,856,316	1986	767	216,500,120
1968	355	16,021,617	1987	741	218,365,931
1969	428	28,217,139	1988	722	208,687,571
1970	497	38,877,627	1989	702	209,597,188
1971	528	50,550,727			

*Includes military facilities operated abroad by national banks from 1966 through 1971.

Assets, liabilities and capital accounts of national banks, June 30, 1989, and June 30, 1990
(Dollar amounts in millions)

	June 30, 1989	*June 30 1989*	*Change June 30, 1989 – June 30, 1990 Fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions				
Noninterest-bearing balances and currency and coin	$ 124,911	$ 123,595	$ -1 316	1 1
Interest-bearing balances	74,634	66,400	8,234	-11 0
Securities	284,107	307,027	22,920	8 1
Federal funds sold and securities purchased under agreements to resell	77,488	86,498	9,010	11 6
Loans and leases, net of unearned income	1,218,936	1,263,182	44 247	3 6
Less allowance for loan and lease losses	28,499	30,272	1,773	6 2
Less allocated transfer risk reserve	93	176	84	90 5
Net loans and leases	1,190,344	1,232,734	42,390	3 6
Premises and fixed assets	27,404	29,064	1,660	6 1
Other real estate owned	7,571	10,651	3,080	40 7
All other assets	107,462	114,514	7,052	6 6
Total assets	1,893,922	1,973,231	79,308	4 2
Liabilities				
Deposits:				
Noninterest-bearing deposits in domestic offices	264,736	263 663	-1,073	-0 4
Interest-bearing deposits in domestic offices	970,472	1,044,428	73,956	7 6
Total domestic deposits	1,235,208	1,308,091	72,883	5 9
Total foreign deposits	195,005	204,220	9,214	4 7
Total deposits	1,430,213	1,512,293	82,080	5 7
Federal funds purchased and securities sold under agreements to repurchase	170,389	169,370	-1,019	-0 6
Demand notes issued to the U S Treasury	21,170	18,324	-2,846	-13 4
Other borrowed money	75,439	74,743	-696	-0.9
Subordinated notes and debentures	10,104	11,449	1,345	13 3
All other liabilities	72,751	68,066	-4 685	-6 4
Total liabilities	1,780,065	1,854,263	74 198	4 2
Limited-life preferred stock	79	116	38	48 0
Equity capital				
Perpetual preferred stock	800	432	-368	-46 0
Common stock	16,534	16,506	-28	-0 2
Surplus	40,151	45,792	5,641	14 0
Net undivided profits and capital reserves	56,700	56,871	171	0 3
Cumulative foreign currency translation agreements	-416	-392	24	-5 8
Total equity capital	113,769	119,325	5,556	4 9
Total liabilities, limited-life preferred stock, and equity capital	1,893,922	1,973,704	79,782	4 2

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions)

	Total United States	Alabama	Alaska	Arizona	Arkansas	California
Number of banks	3,961	50	4	12	78	159
Assets						
Cash and balances due from depository institutions						
Noninterest-bearing balances and currency and coin	$ 123,595	$ 974	$ 266	$ 1,198	$ 653	$ 18,647
Interest-bearing balances	66,400	143	44	220	94	4,730
Securities	309,774	4,482	1,466	2,910	3,003	11,969
Federal funds sold and securities purchased under agreements to resell	86,498	228	47	1,140	455	6,653
Loans and leases, net of unearned income	1,263,182	10,151	1,393	11,631	5,138	177,163
Less allowance for loan and lease losses	30,272	141	29	560	95	4,221
Less allocated transfer risk reserve	176	0	0	0	0	171
Net loans and leases	1,232,734	10,010	1,364	11,071	5,044	172,770
Premises and fixed assets	29,064	248	90	331	184	3,473
Other real estate owned	10,651	92	18	288	55	1,343
All other assets	114,514	587	75	833	266	15,567
Total assets	1,973,231	16,764	3,372	17,990	9,754	235,153
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	263,663	2,289	778	2,968	1,453	36,657
Interest-bearing deposits in domestic offices	1,044,428	10,805	1,740	12,392	7,080	116,241
Total domestic deposits	1,308,091	13,095	2,518	15,360	8,533	152,898
Total foreign deposits	204,220	176	–	0	0	29,448
Total deposits	1,512,293	13,270	2,518	15,360	8,533	182,346
Federal funds purchased and securities sold under agreements to repurchase	169,370	1,991	400	382	250	15,390
Demand notes issued to the U S Treasury	18,324	53	33	1	40	610
Other borrowed money	74,743	18	–	837	12	12,407
Subordinated notes and debentures	11,449	–	0	15	9	3,743
All other liabilities	68,066	186	32	278	99	7,656
Total liabilities	1,854,263	15,519	2,984	16,873	8,944	222,152
Limited-life preferred stock	116	0	0	0	0	0
Equity capital						
Perpetual preferred stock	432	0	0	0	–	15
Common stock	16,536	36	91	79	98	2,458
Surplus	45,645	440	92	649	247	4,034
Net undivided profits and capital reserves	56,661	769	205	389	464	6,616
Cumulative foreign currency translation agreements	–392	0	0	0	0	–123
Total equity capital	118,881	1,245	388	1,117	810	13,001
Total liabilities, limited-life preferred stock, and equity capital	1,973,231	16,764	3,372	17,990	9,754	235,153

Dashes indicate amounts of less than $500,000

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Colorado	Connecticut	Delaware	District of Columbia	Florida	Georgia
Number of banks	251	17	13	25	161	65
Assets						
Cash and balances due from depository institutions:						
Noninterest-bearing balances and currency and coin	$ 1,721	$ 1,516	$ 198	$ 1,062	$ 6,232	$ 3,514
Interest-bearing balances	866	150	36	1,999	1,908	456
Securities	4,151	3,379	157	2,815	15,855	7,372
Federal funds sold and securities purchased under agreements to resell	1,787	2,255	338	743	5,124	1,157
Loans and leases, net of unearned income	11,205	13,486	9,528	12,851	62,575	25,619
Less allowance for loan and lease losses	356	628	421	320	1,165	417
Less allocated transfer risk reserve	0	0	0	0	1	0
Net loans and leases	10,849	12,858	9,107	12,532	61,410	25,203
Premises and fixed assets	382	350	113	304	1,931	644
Other real estate owned	270	187	–	139	537	159
All other assets	615	921	1,873	619	3,061	1,521
Total assets	20,642	21,616	11,823	20,211	96,057	40,026
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	3,903	3,607	266	2,627	13,943	6,892
Interest-bearing deposits in domestic offices	13,046	13,147	4,475	10,667	64,206	21,624
Total domestic deposits	16,949	16,754	4,741	13,294	78,149	28,516
Total foreign deposits	220	273	15	2,817	1,103	438
Total deposits	17,169	17,027	4,756	16,112	79,252	28,953
Federal funds purchased and securities sold under agreements to repurchase	1,613	2,018	969	1,511	6,886	6,897
Demand notes issued to the U.S. Treasury	65	546	2	317	589	21
Other borrowed money	94	755	4,577	748	1,320	328
Subordinated notes and debentures	24	118	196	131	269	100
All other liabilities	311	196	464	360	1,345	1,041
Total liabilities	19,276	20,659	10,963	19,179	89,660	37,342
Limited-life preferred stock	0	0	0	0	0	0
Equity capital						
Perpetual preferred stock	–	10	13	0	1	0
Common stock	266	119	139	101	732	236
Surplus	619	454	368	226	3,184	890
Net undivided profits and capital reserves	481	374	339	709	2,480	1,558
Cumulative foreign currency translation agreements	0	0	0	-3	0	0
Total equity capital	1,366	957	859	1,032	6,398	2,684
Total liabilities, limited-life preferred stock, and equity capital	20,642	21,616	11,823	20,211	96,057	40,026

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Hawaii	Idaho	Illinois	Indiana	Iowa	Kansas
Number of banks	3	7	348	88	94	[illegible]
Assets						
Cash and balances due from depository institutions						
Noninterest bearing balances and currency and coin	$ 26	$ 502	$ 8 393	$ 2,622	$ 729	$ 759
Interest bearing balances	–	44	10,028	226	45	82
Securities	45	1,316	17,740	6,594	3 306	4 260
Federal funds sold and securities purchased under agreements to resell	17	175	6,731	1,199	348	953
Loans and leases, net of unearned income	179	4,589	70,244	20,769	5,919	6 667
Less allowance for loan and lease losses	2	71	1,286	293	107	105
Less allocated transfer risk reserve	0	0	0	0	0	0
Net loans and leases	177	4,519	68,959	20,476	5,812	6 562
Premises and fixed assets	6	90	1,303	379	147	182
Other real estate owned	–	5	470	69	20	49
All other assets	4	135	8,997	1,150	213	354
Total assets	275	6,784	122,619	32,715	10 619	13 200
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	58	869	15,198	4,712	1,546	1 602
Interest-bearing deposits in domestic offices	189	4,328	55,424	20,720	7,228	9 792
Total domestic deposits	248	5,196	70,622	25,432	8,775	11,394
Total foreign deposits	0	0	22,635	145	0	0
Total deposits	248	5,196	93,257	25,578	8,775	11 394
Federal funds purchased and securities sold under agreements to repurchase	2	920	9,194	3,160	852	495
Demand notes issued to the U.S. Treasury	2	156	1,705	418	37	62
Other borrowed money	0	3	4,882	299	15	19
Subordinated notes and debentures	2	9	508	5	10	2
All other liabilities	2	59	5,585	801	149	203
Total liabilities	255	6,343	115,131	30,261	9,839	12 175
Limited-life preferred stock	0	0	0	0	0	0
Equity capital						
Perpetual preferred stock	2	0	10	–	3	–
Common stock	7	45	1,374	244	112	148
Surplus	7	196	3,206	685	187	308
Net undivided profits and capital reserves	5	199	2,915	1,525	478	568
Cumulative foreign currency translation agreements	0	0	–16	0	0	0
Total equity capital	20	441	7,489	2,454	780	1,025
Total liabilities, limited-life preferred stock, and equity capital	275	6,784	122,619	32,715	10,619	13 200

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Kentucky	Louisiana	Maine	Maryland	Massachusetts	Michigan
Number of banks	85	46	7	28	35	70
Assets						
Cash and balances due from depository institutions:						
Noninterest-bearing balances and currency and coin	$ 1,035	$ 1,402	$ 187	$ 1,509	$ 3,078	$ 3,469
Interest-bearing balances	177	363	1	465	4,283	2,098
Securities	3,282	6 182	361	4,507	5,804	12,774
Federal funds sold and securities purchased under agreements to resell	625	772	171	1,534	3,785	1,663
Loans and leases, net of unearned income	10,062	12,831	2,840	19,645	39,630	31,238
Less allowance for loan and lease losses	146	419	64	453	2,129	510
Less allocated transfer risk reserve	0	0	0	4	0	0
Net loans and leases	9,916	12,412	2,777	19,188	37,501	30,728
Premises and fixed assets	226	528	53	277	749	628
Other real estate owned	86	324	20	97	1 045	116
All other assets	335	526	64	1,606	3,018	1,661
Total assets	15,683	22,510	3,634	29,183	59,264	53,137
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	2,278	3,612	441	3,794	6,518	7,538
Interest-bearing deposits in domestic offices	9,998	15,056	2,651	16,539	28,668	32 183
Total domestic deposits	12,276	18,668	3,092	20,233	35,186	39 720
Total foreign deposits	257	256	0	742	8,502	2 237
Total deposits	12,532	18,924	3,092	21,075	43,688	41 958
Federal funds purchased and securities sold under agreements to repurchase	1,420	1,921	139	2,789	7 087	4 096
Demand notes issued to the U S Treasury	288	17	30	422	1,386	1 681
Other borrowed money	49	37	98	2 122	2,548	788
Subordinated notes and debentures	1	9	–	170	610	43
All other liabilities	209	238	28	886	1,418	1 244
Total liabilities	14,499	21,147	3,387	27,464	56,737	49 610
Limited life preferred stock	0	0	0	76	0	0
Equity capital						
Perpetual preferred stock	-	0	0	4	-	0
Common stock	110	121	30	103	168	354
Surplus	195	649	58	577	1 412	[illegible]
Net undivided profits and capital reserves	878	594	158	959	946	[illegible]
Cumulative foreign currency translation agreements	0	0	0	0	1	[illegible]
Total equity capital	1,183	1 364	247	1 643	2 527	[illegible]
Total liabilities, limited life preferred stock, and equity capital	15,683	22,510	3 634	29 183	59 264	[illegible]

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Minnesota	Mississippi	Missouri	Montana	Nebraska	Nevada
Number of banks	152	25	91	44	104	7
Assets						
Cash and balances due from depository institutions						
Noninterest-bearing balances and currency and coin	$ 2,216	$ 652	$ 2,879	$ 184	$ 775	$ 499
Interest bearing balances	207	50	199	27	63	4
Securities	6,185	2,655	6,599	811	2 949	1 065
Federal funds sold and securities purchased under agreements to resell	1,451	838	1,890	740	499	21
Loans and leases net of unearned income	22,928	5,319	17,485	1,819	6,082	8 819
Less allowance for loan and lease losses	469	87	333	36	106	165
Less allocated transfer risk reserve	0	0	0	0	0	0
Net loans and leases	22,459	5,231	17,152	1,783	5 976	8 655
Premises and fixed assets	317	176	532	58	186	134
Other real estate owned	119	38	81	12	26	42
All other assets	1,058	267	752	61	257	615
Total assets	34,012	9,908	30,084	3,676	10,731	11 035
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	5,217	1,416	5,118	479	1,490	1 125
Interest-bearing deposits in domestic offices	20,521	6,928	18,087	2,667	7,709	3 822
Total domestic deposits	25,739	8,344	23,206	3,146	9,199	4 947
Total foreign deposits	634	0	98	0	0	0
Total deposits	26,372	8,344	23,303	3,146	9,199	4 947
Federal funds purchased and securities sold under agreements to repurchase	3,760	736	3,512	175	402	1,129
Demand notes issued to the U S Treasury	405	8	563	3	31	18
Other borrowed money	233	15	174	22	84	3 399
Subordinated notes and debentures	360	0	–	14	8	150
All other liabilities	849	118	421	57	161	607
Total liabilities	31,978	9,221	27,974	3,418	9,885	10 250
Limited-life preferred stock	0	0	–	0	0	0
Equity capital						
Perpetual preferred stock	0	0	2	6	1	0
Common stock	375	48	238	87	123	133
Surplus	821	527	538	111	186	168
Net undivided profits and capital reserves	836	112	1,332	53	537	484
Cumulative foreign currency translation agreements	0	0	0	0	0	0
Total equity capital	2,032	687	2,111	257	846	785
Total liabilities, limited-life preferred stock, and equity capital	34,012	9,908	30,084	3,676	10,731	11 035

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	New Hampshire	*New Jersey*	*New Mexico*	*New York*	*North Carolina*	*North Dakota*
Number of banks	10	54	41	91	16	28
Assets						
Cash and balances due from depository institutions:						
Noninterest-bearing balances and currency and coin	$ 140	$ 4,294	$ 400	$ 14,927	$ 3,250	$ 155
Interest-bearing balances	5	352	33	25,337	2,107	45
Securities	324	11,373	1,766	30,128	10,858	905
Federal funds sold and securities purchased under agreements to resell	80	2,716	897	9,096	2,141	304
Loans and leases, net of unearned income	1,627	46,912	3,717	223,642	37,432	1,529
Less allowance for loan and lease losses	38	1,269	80	6,889	428	30
Less allocated transfer risk reserve	0	1	0	0	0	0
Net loans and leases	1,589	45,642	3,637	216,753	37,004	1,499
Premises and fixed assets	32	945	121	4,960	852	44
Other real estate owned	25	544	94	1,434	72	7
All other assets	49	1,737	147	35,204	3,407	62
Total assets	2,243	67,602	7,096	337,839	59,690	3,021
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	314	11,401	910	33,114	6,396	310
Interest-bearing deposits in domestic offices	1,622	45,429	4,932	97,246	27,009	2,366
Total domestic deposits	1,937	56,829	5,841	130,360	33,405	2,677
Total foreign deposits	0	268	0	120,381	2,620	0
Total deposits	1,937	57,097	5,841	250,741	36,025	2,677
Federal funds purchased and securities sold under agreements to repurchase	125	4,324	661	15,325	14,583	58
Demand notes issued to the U.S. Treasury	7	603	43	1,080	1,106	7
Other borrowed money	7	682	5	24,124	2,659	13
Subordinated notes and debentures	10	207	4	1,791	251	13
All other liabilities	22	988	65	27,417	1,660	53
Total liabilities	2,109	63,902	6,619	320,479	56,286	2,819
Limited-life preferred stock	0	0	0	0	0	0
Equity capital						
Perpetual preferred stock	0	5	0	126	0	0
Common stock	6	643	95	2,506	340	53
Surplus	45	869	139	8,689	742	69
Net undivided profits and capital reserves	83	2,185	244	6,298	2,327	80
Cumulative foreign currency translation agreements	0	0	0	-259	-4	[illegible]
Total equity capital	135	3,701	477	17,360	3,405	[illegible]
Total liabilities, limited-life preferred stock, and equity capital	2,243	67,602	7,096	337,839	59,690	[illegible]

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Ohio	Oklahoma	Oregon	Pennsylvania	Puerto Rico	Rhode Island
Number of banks	133	165	6	157	1	[illegible]
Assets						
Cash and balances due from depository institutions						
Noninterest bearing balances and currency and coin	$ 5,258	$ 1,063	$ 1,283	$ 6,769	$ 4	$ [illegible]
Interest bearing balances	1,221	182	59	3,089	1	[illegible]
Securities	15,904	5,055	2,658	25,759	11	[illegible]
Federal funds sold and securities purchased under agreements to resell	2,598	971	370	4,006	6	[illegible]
Loans and leases, net of unearned income	55,812	6,647	11,897	71,152	47	[illegible]
Less allowance for loan and lease losses	930	197	170	1,242	1	333
Less allocated transfer risk reserve	0	0	0	0	0	0
Net loans and leases	54,882	6,449	11,727	69,910	46	9,368
Premises and fixed assets	1,006	263	193	1,316	3	116
Other real estate owned	151	266	30	274		184
All other assets	2,288	411	884	5,182	2	409
Total assets	83,308	14,660	17,204	116,306	73	15,544
Liabilities						
Deposits						
Noninterest-bearing deposits in domestic offices	10,561	2,496	2,467	14,637	10	1,805
Interest-bearing deposits in domestic offices	53,248	10,184	10,647	67,347	55	7,780
Total domestic deposits	63,810	12,680	13,114	81,982	65	9,584
Total foreign deposits	1,010	40	0	5,080	0	1,339
Total deposits	64,801	12,720	13,114	87,062	65	10,924
Federal funds purchased and securities sold under agreements to repurchase	9,148	352	1,412	12,037	5	2,412
Demand notes issued to the U.S. Treasury	392	216	358	2,020	–	56
Other borrowed money	1,608	37	616	3,905	0	914
Subordinated notes and debentures	34	4	17	1,110	0	90
All other liabilities	1,476	209	497	3,309	1	288
Total liabilities	77,477	13,538	16,014	109,443	71	14,685
Limited-life preferred stock	40	0	0	–	0	0
Equity capital						
Perpetual preferred stock	4	163	2	0	0	0
Common stock	767	200	94	652	3	43
Surplus	1,661	334	231	2,334	5	340
Net undivided profits and capital reserves	3,399	424	863	3,872	–6	476
Cumulative foreign currency translation agreements	0	0	0	4	0	–
Total equity capital	5,831	1,121	1,190	6,862	2	859
Total liabilities, limited-life preferred stock, and equity capital	83,308	14,660	17,204	116,306	73	15,544

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont
Number of banks	30	21	47	609	6	12
Assets						
Cash and balances due from depository institutions:						
Noninterest-bearing balances and currency and coin	$ 1,207	$ 249	$ 1,629	$ 8,445	$ 566	$ 115
Interest-bearing balances	50	20	659	3,248	133	7
Securities	3,849	1,008	5,550	29,015	1,303	285
Federal funds sold and securities purchased under agreements to resell	929	134	615	14,703	344	24
Loans and leases, net of unearned income	13,356	10,220	15,295	56,806	4,585	1,781
Less allowance for loan and lease losses	187	198	362	1,740	100	19
Less allocated transfer risk reserve	0	0	–	0	0	0
Net loans and leases	13,169	10,022	14,933	55,066	4,484	1,762
Premises and fixed assets	262	123	345	2,347	82	39
Other real estate owned	47	6	177	1,310	39	4
All other assets	493	1,534	1,012	10,465	311	40
Total assets	20,006	13,097	24,919	124,599	7,262	2,276
Liabilities						
Deposits:						
Noninterest-bearing deposits in domestic offices	2,543	451	3,629	19,047	1,084	243
Interest-bearing deposits in domestic offices	11,425	5,634	16,535	79,179	4,461	1,746
Total domestic deposits	13,968	6,085	20,164	98,226	6,545	1,988
Total foreign deposits	0	0	64	2,910	71	0
Total deposits	13,968	6,085	20,228	101,136	5,616	1,988
Federal funds purchased and securities sold under agreements to repurchase	4,176	1,023	2,193	10,536	951	84
Demand notes issued to the U.S. Treasury	102	4	96	1,998	39	16
Other borrowed money	132	2,840	181	586	107	3
Subordinated notes and debentures	55	461	136	360	18	–
All other liabilities	266	1,410	457	2,763	92	18
Total liabilities	18,699	11,822	23,291	117,379	6,822	2,109
Limited-life preferred stock	0	0	0	0	0	0
Equity capital						
Perpetual preferred stock	0	1	0	67	0	0
Common stock	143	155	241	1,667	54	13
Surplus	501	250	392	4,657	127	36
Net undivided profits and capital reserves	664	869	995	828	258	118
Cumulative foreign currency translation agreements	0	0	0	–	0	0
Total equity capital	1,308	1,275	1,628	7,220	439	167
Total liabilities, limited-life preferred stock, and equity capital	20,006	13,097	24,919	124,599	7,262	2,276

Assets, liabilities and capital accounts of national banks, by states, June 30, 1990
(Dollar amounts in millions) — continued

	Virginia	*Washington*	*West Virginia*	*Wisconsin*	*Wyoming*
Number of banks	52	27	78	110	32
Assets					
Cash and balances due from depository institutions.					
Noninterest-bearing balances and currency and coin	$ 1,611	$ 2,820	$ 383	$ 1,361	$ 134
Interest-bearing balances	215	230	93	146	30
Securities	5,720	2,251	3,316	3,705	930
Federal funds sold and securities purchased under agreements to resell	1,177	383	506	488	75
Loans and leases, net of unearned income	19,316	25,221	5,307	12,548	828
Less allowance for loan and lease losses	289	360	70	185	22
Less allocated transfer risk reserve	0	0	0	0	0
Net loans and leases	19,027	24,862	5,236	12,364	805
Premises and fixed assets	562	935	185	281	31
Other real estate owned	54	121	31	65	10
All other assets	836	2,370	166	449	44
Total assets	29,202	33,971	9,915	18,858	2,059
Liabilities					
Deposits					
Noninterest-bearing deposits in domestic offices	3,715	5,944	1,069	2,855	265
Interest-bearing deposits in domestic offices	17,897	20,725	7,197	12,268	1,567
Total domestic deposits	21,613	26,669	8,266	15,122	1,832
Total foreign deposits	52	369	0	20	0
Total deposits	21,665	27,038	8,266	15,142	1,832
Federal funds purchased and securities sold under agreements to repurchase	4,740	2,753	625	1,729	21
Demand notes issued to the U.S. Treasury	359	177	34	102	3
Other borrowed money	175	236	1	27	1
Subordinated notes and debentures	30	303	1	47	1
All other liabilities	295	1,267	98	392	21
Total liabilities	27,264	31,773	9,025	17,438	1,878
Limited-life preferred stock	0	0	0	0	0
Equity capital					
Perpetual preferred stock	0	0	0	0	0
Common stock	138	231	91	182	15
Surplus	412	1,073	229	429	55
Net undivided profits and capital reserves	1,389	894	571	807	111
Cumulative foreign currency translation agreements	0	–	0	0	0
Total equity capital	1,938	2,198	891	1,419	181
Total liabilities, limited-life preferred stock, and equity capital	29,202	33,971	9,915	18,858	2,059

Income and expenses of foreign and domestic offices and subsidiaries of national banks, June 30, 1990
(Dollar amounts in millions)

	Consolidated foreign and domestic	*Percent distribution*
Interest income:		
Interest and fee income on loans	$ 71,815	75.1
Income from lease financing receivables	1,818	1.9
Interest income on balances due from depository institutions	3,874	4.1
Interest and dividend income on securities	13,111	13.7
Interest income from assets held in trading accounts	1,383	1.4
Interest income from federal funds sold and securities purchased under agreements to resell	3,601	3.8
Total interest income	95,602	100.0
Interest expense:		
Interest on deposits	47,136	74.5
Expense of federal funds purchased and securities sold under agreements to repurchase	7,610	12.0
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	7,881	12.5
Interest on mortgage indebtedness and obligations under capitalized leases	84	0.1
Interest on notes and debentures subordinated to deposits	517	0.8
Total interest expense	63,228	100.0
Net interest income	33,176	
Provision for loan and lease losses	8,239	
Provision for allocated transfer risk	−30	
Noninterest income:		
Service charges on deposit accounts	3,455	21.7
Other noninterest income	12,445	78.3
Total noninterest income	15,900	100.0
Gains and losses on securities not held in trading accounts	112	
Noninterest expense:		
Salaries and employee benefits	15,108	44.6
Expenses of premises and fixed assets (net of rental income)	5,143	15.2
Other noninterest expense	13,632	40.2
Total noninterest expense	33,883	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	8,218	
Applicable income taxes	2,454	
Income before extraordinary items and other adjustments	5,772	
Extraordinary items and other adjustments, net of taxes	96	
Net income	5,863	
Total cash dividends declared*	3,704	
Recoveries credited to allowance for possible loan losses	1,449	
Losses charged to allowance for possible loan losses	11,213	
Net loan losses	9,764	

*Banks with assets of less than $100 million report this item only in their December Report of Income.

Loans of national banks, by states, June 30, 1990
(Dollar amounts in millions)

	Total loans, gross	Domestic offices					Total loans at foreign offices
		Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	
All national banks	$1 257 764	$ 465 517	$ 14 105	$ 318 887	$ 108 697	$ 210 033	$ 140 525
Alabama	10 344	4 087	56	3,203	731	2 267	–
Alaska	1 264	552	2	519	41	151	0
Arizona	11 634	3 574	415	2 420	2 355	2 871	0
Arkansas	5 187	2 480	213	1,129	1 030	336	0
California	176 563	79 278	2 138	31,323	3 924	29 628	30,272
Colorado	10 658	4 406	454	2,509	2 663	624	2
Connecticut	13 514	8 166	25	3 544	109	1,669	1
Delaware	9 549	463	1	124	7 873	1,089	0
District of Columbia	12 898	6 205	–	3 396	78	2 382	837
Florida	63 408	33 853	181	11 320	6 332	11 625	97
Georgia	25 098	9 568	88	7 041	2,546	5,675	180
Hawaii	180	109	0	53	12	5	0
Idaho	4 597	1 190	482	1,195	1,317	413	0
Illinois	68 376	19 678	748	25,838	5,976	9,081	7,055
Indiana	20 147	8 005	293	5,246	3,884	2,649	70
Iowa	5 173	2 056	509	1,203	1,622	-216	0
Kansas	6 537	2 661	761	1,602	1,329	184	0
Kentucky	10 163	3 495	120	3,067	1,335	2,142	4
Louisiana	12 919	5,231	76	3,610	1,271	2,366	365
Maine	2 870	1 790	13	604	374	89	0
Maryland	19,254	8,354	23	3,999	3,156	3,409	314
Massachusetts	39 689	13,539	16	15,029	465	6,727	3,913
Michigan	31 246	11,648	112	10,765	2,537	5,011	1,173
Minnesota	22 848	6 023	474	9,147	1,568	5,410	227
Mississippi	5 265	2 256	87	1,326	746	851	0
Missouri	16 800	7 671	311	4 324	1,888	2,607	0
Montana	1 623	537	216	454	523	-107	0
Nebraska	6 077	1 571	938	1,244	1 895	429	0
Nevada	8 828	1 255	17	934	6 396	227	0
New Hampshire	1 628	831	–	531	237	28	0
New Jersey	47 460	23 401	10	13,637	3,130	7,092	190
New Mexico	3 740	1 984	115	742	801	97	0
New York	226 802	59 025	326	39 863	4,736	30,829	92,023
North Carolina	37 454	16,093	195	11,731	561	8,525	349
North Dakota	1 393	557	220	326	322	-32	0
Ohio	53 879	18 572	327	15,881	6,757	12 275	67
Oklahoma	6 494	2 781	521	1,764	837	591	0
Oregon	11 898	3 250	264	4 560	66	3 757	0
Pennsylvania	70 959	22 794	105	24,393	5,371	16,157	2,139
Puerto Rico	48	15	0	13	20	1	0
Rhode Island	9 709	3 391	26	2,735	215	3,307	35
South Carolina	13 359	6 477	65	2 920	2,288	1 609	0
South Dakota	10 192	646	288	1 468	7,726	64	0
Tennessee	15 139	6 531	55	3,737	944	3,871	–
Texas	56 937	19 328	1 342	20,804	4 816	9,574	1,073
Utah	4 594	1 698	94	1 119	138	1 544	0
Vermont	1 781	1 116	22	396	217	30	0
Virginia	18 362	8 685	127	4 426	1 476	3 646	2
Washington	25 243	10 617	911	6 655	653	6,280	127
West Virginia	5 069	2 621	9	985	1 566	113	0
Wisconsin	12 087	5 134	214	3 798	1 636	1 295	10
Wyoming	826	267	101	233	210	14	0

– Represents zero or amount of less than $500,000

Deposits of national banks, by states, June 30, 1990
(Dollar amounts in millions)

	Total demand deposits at domestic offices	All NOW accounts	Money market deposit accounts	Large time deposits	All other time deposits at domestic offices	Total deposits at foreign offices	Total consolidated deposits
All national banks	256,640	115,621	226,412	227,365	482,053	204,220	1,512,29[illegible]
Alabama	2,212	1,151	2,572	1,759	5,401	176	13,270
Alaska	778	165	313	412	851	-	2,518
Arizona	2,965	1,474	2,757	1,589	6,574	0	15,360
Arkansas	1,432	1,206	959	1,147	3,790	0	8,533
California	35,754	13,757	30,781	26,666	45,940	29,448	182,346
Colorado	3,897	2,149	3,694	2,326	4,883	220	17,169
Connecticut	3,580	1,274	2,503	1,917	7,480	273	17,027
Delaware	254	74	1,364	2,686	363	15	4,756
District of Columbia	2,627	1,228	3,469	3,201	2,769	2,817	16,112
Florida	13,704	8,559	13,756	12,170	29,961	1,103	79,252
Georgia	6,651	2,778	5,820	3,755	9,512	438	28,953
Hawaii	58	31	29	45	85	0	248
Idaho	861	595	884	499	2,357	0	5,196
Illinois	14,516	4,989	9,143	18,328	23,646	22,635	93,257
Indiana	4,685	2,646	3,746	3,163	11,193	145	25,578
Iowa	1,546	1,072	1,061	593	4,503	0	8,775
Kansas	1,598	1,301	1,669	1,533	5,293	0	11,394
Kentucky	2,200	1,469	1,221	1,675	5,710	257	12,532
Louisiana	3,592	1,550	3,122	4,086	6,317	256	18,924
Maine	441	313	475	249	1,614	0	3,092
Maryland	3,793	1,272	2,941	3,800	8,528	742	21,075
Massachusetts	6,433	2,201	8,668	7,823	10,062	8,502	43,688
Michigan	7,416	2,288	6,608	6,967	16,442	2,237	41,958
Minnesota	4,888	2,005	4,150	5,163	9,533	634	26,372
Mississippi	1,389	899	1,078	1,206	3,772	0	8,344
Missouri	4,988	2,552	3,709	3,019	8,938	98	23,303
Montana	478	401	591	221	1,455	0	3,146
Nebraska	1,490	1,200	1,139	642	4,727	0	9,199
Nevada	1,125	483	1,121	1,039	1,180	0	4,947
New Hampshire	313	305	205	237	876	0	1,937
New Jersey	11,294	4,627	8,992	6,724	25,192	268	57,097
New Mexico	910	815	784	989	2,344	0	5,841
New York	31,035	7,895	28,220	27,879	35,332	120,381	250,741
North Carolina	6,097	3,017	4,975	7,462	11,855	2,620	36,025
North Dakota	305	404	342	227	1,399	0	2,677
Ohio	10,496	5,737	8,972	9,115	29,489	1,010	64,801
Oklahoma	2,470	1,578	1,602	1,723	5,307	40	12,720
Oregon	2,463	1,602	2,438	1,605	5,006	0	13,114
Pennsylvania	14,162	5,463	13,178	15,063	34,116	5,080	87,062
Puerto Rico	10	5	0	18	32	0	65
Rhode Island	1,127	468	1,269	3,236	3,485	1,339	10,924
South Carolina	2,528	1,993	2,971	1,437	5,039	0	13,968
South Dakota	450	431	770	2,037	2,397	0	6,085
Tennessee	3,615	1,786	3,836	2,193	8,735	64	20,228
Texas	18,999	10,314	16,854	19,370	32,689	2,910	101,136
Utah	1,084	659	906	541	2,355	71	5,616
Vermont	243	196	314	246	990	0	1,988
Virginia	3,621	2,253	2,192	3,831	9,716	52	21,665
Washington	5,925	2,592	5,265	2,920	9,968	369	27,038
West Virginia	1,066	844	654	683	5,020	0	8,266
Wisconson	2,812	1,268	2,054	1,858	7,131	20	15,142
Wyoming	265	290	278	295	704	0	1,832

Dashes indicate amounts of less than $500,000

Interest Income of National Banks, June 30, 1990
(Dollar amounts in millions)

	Interest and Fees on Loans	Income from Lease Financing	Interest due from Other Depository Institutions	Interest and Dividends on Securities	Interest from Trading Account Assets	Interest from Federal Funds Transactions	Total Interest Income
All national banks	71,815	1,818	3,874	13,111	1,383	3,601	95,602
Alabama	550	3	4	186	8	12	762
Alaska	71	1	3	62	0	4	140
Arizona	630	15	8	106	5	33	796
Arkansas	278	1	5	121	2	22	429
California	9,212	186	250	514	170	243	10,576
Colorado	608	6	38	162	2	66	881
Connecticut	732	–	5	115	–	98	951
Delaware	924	5	3	7	44	11	994
District of Columbia	671	5	90	120	2	20	907
Florida	3,289	18	85	651	2	281	4,328
Georgia	1,414	23	29	303	12	41	1,824
Hawaii	9	–	–	2	0	1	12
Idaho	239	5	2	57	–	8	310
Illinois	3,534	6	560	710	153	306	5,270
Indiana	1,059	17	13	265	1	49	1,404
Iowa	274	–	2	126	–	22	424
Kansas	338	2	4	167	–	39	551
Kentucky	527	10	8	137	–	33	716
Louisiana	696	1	17	260	–	42	1,016
Maine	161	–	–	15	0	7	183
Maryland	1,011	26	15	190	41	40	1,323
Massachusetts	2,587	191	360	412	21	148	3,719
Michigan	1,598	17	108	542	6	57	2,327
Minnesota	1,200	30	18	284	4	68	1,605
Mississippi	281	–	4	103	–	24	412
Missouri	861	6	10	231	3	73	1,184
Montana	92	–	2	28	0	32	154
Nebraska	368	3	3	118	1	25	518
Nevada	861	–	–	52	–	3	918
New Hampshire	93	0	–	13	0	3	109
New Jersey	2,450	20	14	482	5	76	3,047
New Mexico	208	1	1	71	–	29	310
New York	16,172	810	1,607	1,530	738	397	21,254
North Carolina	1,862	48	80	490	73	109	2,662
North Dakota	80	–	2	35	0	14	131
Ohio	2,950	75	69	659	7	112	3,872
Oklahoma	363	–	10	207	1	41	622
Oregon	607	33	5	115	8	13	781
Pennsylvania	3,484	99	178	974	19	128	4,882
Puerto Rico	3	0	–	1	0	–	4
Rhode Island	440	95	8	150	–	52	745
South Carolina	723	4	2	166	3	31	929
South Dakota	847	–	1	46	0	5	899
Tennessee	812	10	29	236	7	29	1,123
Texas	2,977	11	183	1,187	17	622	4,996
Utah	241	7	6	55	11	12	332
Vermont	107	–	1	12	0	1	121
Virginia	999	5	11	231	4	45	1,295
Washington	1,364	15	11	96	10	16	1,512
West Virginia	275	–	4	123	–	25	428
Wisconsin	640	10	5	145	1	25	827
Wyoming	45	–	2	40	–	6	92

Dashes indicate amounts of less than $500,000

Noninterest Income of National Banks, June 30, 1990

(Dollar amounts in millions)

	Service Charges on Deposit Accounts	Gains (Losses) on Foreign Exchange Transactions	Gains (Losses) on Fees from Assets in Trading Accounts	Other Noninterest Income	Gains (Losses) on Assets not in Trading Accounts	Total Noninterest Income and Gains (Losses) on Assets not in Trading Accounts
All national banks	3,455	666	441	12,445	112	17,119
Alabama	36	1	4	58	1	100
Alaska	9	0	0	19	–	27
Arizona	59	1	–1	143	7	209
Arkansas	22	0	3	38	–	64
California	581	132	111	1,924	–3	2,744
Colorado	61	2	4	145	–	212
Connecticut	46	3	1	195	6	252
Delaware	9	0	0	553	0	563
District of Columbia	28	5	1	96	–2	128
Florida	230	5	3	393	20	652
Georgia	118	1	2	158	2	281
Hawaii	1	–	–	1	0	1
Idaho	16	–	–	23	–	39
Illinois	139	52	66	465	–17	705
Indiana	53	1	2	138	–	194
Iowa	19	0	–	59	–	77
Kansas	24	–	–	42	1	67
Kentucky	26	0	1	50	1	79
Louisiana	60	–	–	75	–2	134
Maine	6	–	0	26	0	32
Maryland	60	2	1	120	–	183
Massachusetts	70	30	–8	539	9	640
Michigan	89	5	–3	216	–	307
Minnesota	56	5	8	187	1	258
Mississippi	23	–	1	27	1	51
Missouri	55	2	11	140	1	209
Montana	7	–	0	12	–	19
Nebraska	17	–	0	103	–	120
Nevada	18	0	–	177	–	195
New Hampshire	4	0	–	7	–	12
New Jersey	118	2	5	201	5	332
New Mexico	15	0	–	23	2	40
New York	257	374	160	2,173	22	2,987
North Carolina	100	9	5	298	13	425
North Dakota	5	–	0	9	–	14
Ohio	136	5	–	481	6	627
Oklahoma	39	1	5	68	–	112
Oregon	52	–	3	71	–	127
Pennsylvania	158	13	10	559	14	754
Puerto Rico	0	0	0	0	–	–
Rhode Island	11	1	–	175	8	194
South Carolina	42	–	1	73	2	119
South Dakota	6	–	0	815	–	821
Tennessee	60	–	24	136	1	221
Texas	299	3	13	719	12	1,047
Utah	19	0	2	26	–	46
Vermont	3	–	0	6	–	9
Virginia	45	1	2	105	1	154
Washington	97	6	–2	244	–	345
West Virginia	10	0	0	23	–	34
Wisconsin	36	1	3	107	–	147
Wyoming	4	–	–	6	–	10

Dashes indicate amounts of less than $500,000

Interest Expense of National Banks, June 30, 1990

(Dollar amounts in millions)

	Interest on Deposits	Expense of Federal Funds Transactions	Interest on Treasury Demand Notes and other Borrowed Money	Interest on Mortgage and Capitalized Leases	Interest on Subordinated Notes and Debentures	Total Interest Expense
All national banks	$47 136	$7,610	$7,881	$84	$517	$63 229
Alabama	391	82	2	–	–	475
Alaska	57	14	1	–	0	72
Arizona	392	18	36	–	1	447
Arkansas	238	11	2	–	–	251
California	4 885	635	516	11	168	6,216
Colorado	433	64	7	2	2	507
Connecticut	496	83	68	1	6	654
Delaware	185	36	292	–	9	521
District of Columbia	513	84	10	1	7	615
Florida	2 252	327	74	3	12	2,668
Georgia	781	250	16	1	9	1,058
Hawaii	6	–	–	0	–	6
Idaho	146	31	3	–	–	181
Illinois	3,048	514	264	1	23	3,850
Indiana	715	131	22	1	–	869
Iowa	238	31	1	1	–	272
Kansas	310	19	3	1	–	332
Kentucky	371	65	7	1	–	444
Louisiana	546	82	2	–	–	631
Maine	101	5	6	–	–	113
Maryland	571	131	80	1	8	791
Massachusetts	1,890	363	630	3	28	2,914
Michigan	1,208	194	59	1	3	1,465
Minnesota	787	184	38	1	13	1,023
Mississippi	226	27	1	–	–	254
Missouri	618	135	14	3	–	770
Montana	86	6	1	–	1	93
Nebraska	267	16	5	1	–	290
Nevada	132	46	219	–	8	405
New Hampshire	57	6	–	–	–	64
New Jersey	1,564	204	34	1	10	1,814
New Mexico	157	24	1	1	–	184
New York	10,734	885	4,656	28	80	16,383
North Carolina	1,050	673	109	3	5	1,841
North Dakota	76	2	–	–	1	79
Ohio	1,817	370	72	2	1	2,263
Oklahoma	341	20	7	–	–	367
Oregon	341	65	28	–	1	436
Pennsylvania	2,476	515	194	3	50	3,239
Puerto Rico	2	–	0	0	0	3
Rhode Island	340	81	90	–	4	516
South Carolina	386	160	9	–	2	558
South Dakota	212	54	162	–	19	447
Tennessee	579	91	11	–	7	690
Texas	2,916	456	81	6	17	3,476
Utah	150	41	2	–	1	194
Vermont	67	2	1	–	–	70
Virginia	612	181	18	–	1	812
Washington	680	101	22	4	14	821
West Virginia	223	24	1	–	–	248
Wisconsin	415	68	5	–	2	490
Wyoming	49	1	–	–	–	50

Dashes indicate amounts of less than $500 000

Noninterest and Other Expense of National Banks, June 30, 1990
(Dollar amounts in millions)

	Provision for Loan and Lease Losses	Provision for Allocated Transfer Risk	Salaries and Employee Benefits	Expenses of Premises and Fixed Assets	Applicable Income Taxes	Other Noninterest Expense	Total Noninterest and Other Expense
All national banks	$8,239	$-30	$15,108	$5,143	$2,454	$13,632	$44,545
Alabama	32	0	118	37	25	89	301
Alaska	4	0	31	11	9	17	72
Arizona	117	0	200	62	8	158	546
Arkansas	16	0	82	25	16	69	209
California	743	-31	1,904	732	801	1,530	5,678
Colorado	178	0	185	65	-27	261	661
Connecticut	72	0	183	71	21	152	499
Delaware	206	0	117	28	135	318	805
District of Columbia	192	0	140	57	-22	125	492
Florida	449	–	717	301	88	689	2,245
Georgia	173	0	304	92	45	314	928
Hawaii	–	0	3	2	–	2	8
Idaho	6	0	43	9	18	55	131
Illinois	255	0	796	244	119	557	1,970
Indiana	105	0	216	66	53	204	643
Iowa	11	0	81	26	28	75	221
Kansas	25	0	87	23	23	80	237
Kentucky	44	0	110	35	17	76	282
Louisiana	120	0	158	53	12	158	500
Maine	16	0	30	12	5	25	88
Maryland	351	0	234	69	-28	183	810
Massachusetts	385	0	530	200	4	379	1,498
Michigan	66	0	395	113	65	305	943
Minnesota	126	0	213	68	27	290	725
Mississippi	26	0	70	22	9	51	179
Missouri	52	0	211	65	42	184	553
Montana	–	0	25	8	6	33	72
Nebraska	27	0	86	29	28	119	289
Nevada	176	0	58	23	80	226	563
New Hampshire	40	0	19	6	-5	19	78
New Jersey	904	1	502	189	-122	479	1,953
New Mexico	47	0	59	20	-6	42	163
New York	1,129	0	2,993	1,036	240	2,136	7,535
North Carolina	117	0	382	127	71	292	989
North Dakota	3	0	21	7	5	20	56
Ohio	394	0	593	171	122	650	1,931
Oklahoma	29	0	130	36	20	117	332
Oregon	44	0	138	40	52	87	360
Pennsylvania	357	0	701	255	63	657	2,033
Puerto Rico	–	0	1	–	0	1	2
Rhode Island	208	0	110	20	-15	104	428
South Carolina	63	0	134	49	33	119	399
South Dakota	223	0	89	25	145	574	1,056
Tennessee	207	0	206	59	3	166	642
Texas	225	0	885	309	55	778	2,252
Utah	20	0	45	12	15	60	152
Vermont	6	0	21	6	4	13	50
Virginia	126	0	201	64	25	156	572
Washington	77	0	313	92	78	235	795
West Virginia	14	0	69	19	20	55	177
Wisconsin	31	0	152	44	42	134	402
Wyoming	2	0	16	5	4	14	40

Dashes indicate amounts of less than $500,000

Book Value of Securities at National Banks, June 30, 1990
(Dollar amounts in millions)

	U.S. Treasury Securities	U.S. Government Issued or Guaranteed Certificates of Participation	Other U.S. Government Agency and Corporation Obligations	Securities Issued by States and Political Subdivisions in the U.S.	Other Domestic Debt Securities	Foreign Debt Securities	Equity Securities
All national banks	$76,464	$86,972	$56,617	$44,748	$24,302	$14,196	$3,727
Alabama	569	1,393	1,319	969	160	14	27
Alaska	1,002	9	109	87	253	0	5
Arizona	1,087	607	498	475	215	1	20
Arkansas	1,077	513	730	477	95	–	34
California	2,384	5,726	626	1,029	276	1,519	331
Colorado	1,571	279	1,185	666	385	–	32
Connecticut	231	2,413	140	166	398	6	20
Delaware	63	10	61	7	–	–	16
District of Columbia	768	744	530	315	327	81	12
Florida	3,824	5,624	2,380	3,265	1,115	135	144
Georgia	689	3,041	1,083	1,589	858	7	57
Hawaii	6	0	35	3	0	0	–
Idaho	361	177	331	239	191	0	7
Illinois	5,438	2,708	3,619	3,361	1,418	480	310
Indiana	1,585	1,037	1,710	1,238	880	11	111
Iowa	940	959	685	344	289	–	18
Kansas	1,079	980	1,339	674	124	–	42
Kentucky	903	426	805	859	216	8	39
Louisiana	2,099	2,650	841	397	206	3	36
Maine	69	97	127	48	5	–	3
Maryland	546	1,747	816	696	376	120	27
Massachusetts	2,017	2,067	376	271	214	619	155
Michigan	1,359	6,385	1,247	1,985	1,565	64	71
Minnesota	1,384	2,470	568	989	549	7	51
Mississippi	608	693	620	538	140	1	24
Missouri	3,566	986	852	900	205	38	34
Montana	155	280	155	60	97	–	7
Nebraska	1,037	472	691	388	327	2	19
Nevada	89	320	107	79	461	0	9
New Hampshire	100	31	94	55	15	–	3
New Jersey	2,393	2,178	2,598	2,586	1,399	52	91
New Mexico	612	238	524	326	1	5	13
New York	5,202	4,431	2,326	4,124	2,201	10,376	931
North Carolina	3,361	4,061	954	1,604	619	218	41
North Dakota	144	428	145	90	59	0	11
Ohio	3,038	2,920	5,217	3,361	1,071	26	120
Oklahoma	2,302	1,153	737	488	311	1	47
Oregon	620	920	270	618	280	1	10
Pennsylvania	4,725	8,727	6,106	2,788	2,321	307	147
Puerto Rico	–	8	0	1	0	0	0
Rhode Island	3,265	457	7	258	103	2	17
South Carolina	1,248	954	799	626	196	2	23
South Dakota	152	581	42	99	104	0	15
Tennessee	1,073	1,271	1,748	891	514	3	38
Texas	8,120	9,586	7,234	1,380	2,262	73	326
Utah	335	291	426	104	142	0	5
Vermont	106	19	47	46	38	–	4
Virginia	398	2,475	1,136	880	709	1	30
Washington	626	466	355	514	193	7	49
West Virginia	726	367	1,388	671	65	–	102
Wisconsin	1,039	479	562	1,073	311	5	37
Wyoming	373	115	317	55	46	0	3

Dashes indicate amounts of less than $500,000

Off-balance Sheet Items at National Banks, June 30, 1990
(Dollar amounts in millions)

	Unused Commitments	*Letters of Credit*	*Participations in Acceptances Acquired by the reporting bank*	*Securities Borrowed*	*Securities Lent*	*Mortgages Transferred with Recourse Treated as Sold*	*Interest Rate Contracts and When-issued Securities*
All national banks	$ 715,229	$ 142,722	$ 207	$ 2,518	$ 5,603	$ 20,632	$1,649,492
Alabama	3,301	725	–	0	2	0	130
Alaska	501	17	0	19	75	0	8
Arizona	8,087	369	0	0	0	0	2,361
Arkansas	767	81	0	0	0	218	179
California	119,794	24,889	2	53	147	1,163	308,964
Colorado	6,889	436	1	0	0	0	39
Connecticut	5,196	1,308	5	0	0	52	2,609
Delaware	53,708	31	0	0	100	0	2,533
District of Columbia	4,970	989	4	11	11	0	3,272
Florida	19,623	2,529	1	0	130	203	1,681
Georgia	13,938	1,728	16	151	0	22	4,703
Hawaii	66	2	0	0	0	–	0
Idaho	1,860	125	0	4	4	0	95
Illinois	53,534	11,828	21	28	27	22	265,830
Indiana	8,299	915	1	93	248	45	1,209
Iowa	3,610	158	0	7	0	19	34
Kansas	1,971	128	0	11	7	0	10
Kentucky	3,898	399	–	7	34	9	328
Louisiana	4,499	581	4	0	0	253	291
Maine	475	38	0	0	0	–	54
Maryland	10,042	1,580	0	106	125	343	9,279
Massachusetts	21,725	4,653	13	46	44	3,777	56,991
Michigan	11,380	2,014	2	0	46	733	5,653
Minnesota	9,929	3,205	21	1	98	4	9,100
Mississippi	1,697	116	0	0	0	0	326
Missouri	6,130	1,170	3	228	103	2	516
Montana	477	69	0	–	0	1	72
Nebraska	4,814	214	2	0	0	0	57
Nevada	1,308	107	0	0	0	17	7,961
New Hampshire	260	27	0	0	0	0	1
New Jersey	16,234	2,005	7	0	0	3	2,717
New Mexico	1,132	47	0	0	–	102	31
New York	96,902	52,372	31	968	775	11,209	847,939
North Carolina	20,142	3,094	9	116	123	1	10,909
North Dakota	173	23	0	2	0	0	5
Ohio	33,854	4,447	26	0	571	344	22,158
Oklahoma	1,621	191	0	0	0	43	140
Oregon	6,625	472	2	0	0	0	3,163
Pennsylvania	33,942	9,434	11	0	1,185	489	29,680
Puerto Rico	6	0	0	0	0	0	0
Rhode Island	3,616	409	12	0	0	132	1,439
South Carolina	6,204	338	–	8	303	0	401
South Dakota	45,947	36	0	0	0	0	11,434
Tennessee	5,457	772	0	0	159	0	1,979
Texas	26,873	4,326	5	608	1,016	6	8,366
Utah	1,870	246	–	0	0	0	822
Vermont	338	30	0	0	0	11	2
Virginia	9,532	1,488	5	40	99	1,366	3,055
Washington	15,020	1,739	1	10	127	0	19,354
West Virginia	824	88	2	0	40	0	25
Wisconsin	6,059	724	0	1	0	39	1,588
Wyoming	110	10	0	0	0	0	–

Dashes indicate amounts of less than $500,000.

Consolidated foreign and domestic loans and leases past due at national banks, by states, June 30, 1990
(Dollar amounts in millions)

	Number of banks	Type of loan						
		All real estate	Commercial and industrial[1]	Personal[2]	Leases	Other loans[3]	Total loans	To non-U.S. addresses
All national banks	3,961	$11,862.9	$6,876.8	$7,422.1	$331.3	$1,106.6	$27,600.7	$882.2
Alabama	50	51.1	44.0	58.8	–[4]	4.7	158.6	0.00
Alaska	4	20.8	10.0	1.6	0.0	1.2	33.6	0.00
Arizona	12	142.8	77.1	84.4	2.1	43.4	349.9	9.55
Arkansas	78	61.0	36.4	24.7	–	2.8	125.0	0.00
California	159	1,415.8	788.6	644.7	20.6	206.3	3,076.0	133.42
Colorado	251	83.6	96.2	64.2	1.2	5.1	250.4	0.00
Connecticut	17	333.9	197.5	49.1	0.0	31.2	611.7	0.00
Delaware	13	6.3	8.1	347.5	0.9	–	362.9	0.00
District of Columbia	25	208.4	98.8	20.1	–	8.7	336.0	0.04
Florida	161	867.3	239.9	272.3	5.7	23.0	1,408.1	4.29
Georgia	65	176.2	175.6	199.8	8.7	17.7	578.0	0.09
Hawaii	3	–	–	–	0.0	0.0	0.9	0.00
Idaho	7	11.8	12.0	19.8	–	7.4	51.1	0.00
Illinois	348	262.3	298.0	168.3	1.1	49.4	779.1	3.41
Indiana	88	147.4	90.4	162.9	3.2	3.8	407.7	0.00
Iowa	94	22.5	27.3	65.8	–	1.3	117.2	0.00
Kansas	161	40.2	33.9	22.1	0.6	–	97.1	0.00
Kentucky	85	83.1	73.8	55.5	2.3	4.0	218.7	0.00
Louisiana	46	114.5	93.9	79.9	–	11.6	300.1	0.00
Maine	7	74.9	25.1	10.0	–	4.5	114.5	0.00
Maryland	28	156.3	67.9	217.1	11.4	12.9	465.5	2.50
Massachusetts	35	673.0	322.1	87.5	19.0	23.6	1,125.2	4.49
Michigan	70	165.2	142.9	99.2	4.2	17.4	428.9	2.12
Minnesota	152	108.2	279.2	90.9	13.4	11.3	503.1	3.61
Mississippi	25	59.4	20.5	31.9	0.0	6.3	118.1	0.00
Missouri	91	115.2	89.0	57.2	–	5.9	267.6	0.00
Montana	44	11.8	16.9	9.7	0.0	1.6	40.0	0.00
Nebraska	104	25.1	19.1	51.2	–	2.2	98.0	0.00
Nevada	7	34.2	13.1	486.1	–	1.5	534.9	0.00
New Hampshire	10	60.1	20.9	14.0	0.0	–	95.4	0.00
New Jersey	54	816.8	419.5	223.9	11.2	36.1	1,507.5	0.50
New Mexico	41	50.1	65.4	19.7	0.9	1.6	137.8	0.00
New York	91	2,440.4	652.7	1,125.0	88.0	244.3	4,550.4	689.05
North Carolina	16	250.8	97.1	94.9	7.2	3.5	453.5	1.23
North Dakota	28	10.2	19.2	8.5	–	3.1	41.0	0.00
Ohio	133	306.9	196.6	478.6	15.3	12.4	1,009.8	0.00
Oklahoma	165	51.2	51.3	25.2	–	2.8	130.9	0.00
Oregon	6	59.2	31.7	35.7	15.6	15.6	157.9	0.00
Pennsylvania	157	484.9	486.8	267.1	36.3	104.2	1,379.3	19.42
Puerto Rico	1	0.0	2.4	0.8	0.0	0.0	3.2	0.23
Rhode Island	5	161.2	90.1	32.9	43.9	6.7	334.9	0.00
South Carolina	30	90.0	41.6	73.5	1.7	3.7	210.5	0.00
South Dakota	21	7.2	395.9	838.2	0.0	4.6	1,245.7	0.00
Tennessee	47	109.0	79.7	120.2	2.7	9.6	321.1	0.00
Texas	609	653.5	403.9	254.6	2.9	91.4	1,406.3	8.25
Utah	6	45.9	30.5	23.6	3.1	2.0	105.1	0.00
Vermont	12	21.9	11.1	6.5	0.0	0.8	40.3	0.00
Virginia	52	413.2	118.4	103.4	0.0	27.0	662.0	0.00
Washington	27	187.2	105.4	92.0	2.0	19.2	405.8	0.00
West Virginia	78	68.5	35.4	55.1	0.0	0.0	159.0	0.00
Wisconsin	110	98.0	111.7	41.5	4.6	8.5	264.4	0.00
Wyoming	32	4.2	11.7	4.6	0.0	0.7	21.2	0.00

[1] For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
[2] For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
[3] For banks with assets of less than $300 million, all other loans are reported under commercial and industrial category.
[4] Dashes indicate amounts of less than $500,000.

*Percent of total loans past due, by asset size of national banks**

	Less than $300M	$300M to $1B	$1B to $10B	Greater than $10B	All national banks
Real estate					
September 1989	2.27	2.18	2.63	2.67	2.55
December 1989	2.36	2.24	2.57	2.89	2.65
March 1990	2.44	2.42	3.02	3.22	2.97
June 1990	2.11	2.11	2.30	2.71	2.45
Commercial and industrial[1]					
September 1989	4.87	2.94	1.84	1.33	1.88
December 1989	4.32	2.59	1.89	1.27	1.79
March 1990	5.15	3.14	2.35	1.29	2.02
June 1990	4.51	2.60	2.17	1.13	1.78
Personal[2]					
September 1989	2.58	2.98	3.12	4.01	3.32
December 1989	2.81	3.21	3.23	4.08	3.45
March 1990	2.52	2.96	3.83	3.09	3.36
June 1990	2.58	2.91	3.66	2.97	3.22
Leases					
September 1989	2.10	1.45	1.54	1.13	1.30
December 1989	2.06	1.76	2.43	0.94	1.49
March 1990	2.23	1.57	1.51	1.47	1.49
June 1990	2.14	1.37	1.43	1.14	1.24
Other loans[3]					
September 1989	0.06	1.08	1.19	1.04	1.01
December 1989	0.04	0.87	1.05	0.76	0.79
March 1990	0.03	1.25	1.56	1.08	1.14
June 1990	0.02	0.79	1.15	0.79	0.83
Total loans					
September 1989	2.74	2.49	2.38	2.08	2.29
December 1989	2.72	2.48	2.41	2.11	2.31
March 1990	2.88	2.64	2.90	2.16	2.52
June 1990	2.57	2.33	2.49	1.88	2.19

NOTES:

*Past due loans in each category are stated as a percentage of loans outstanding of that type.

[1]For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans

[2]For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans

[3]Data not available for banks with assets of less than $300 million.

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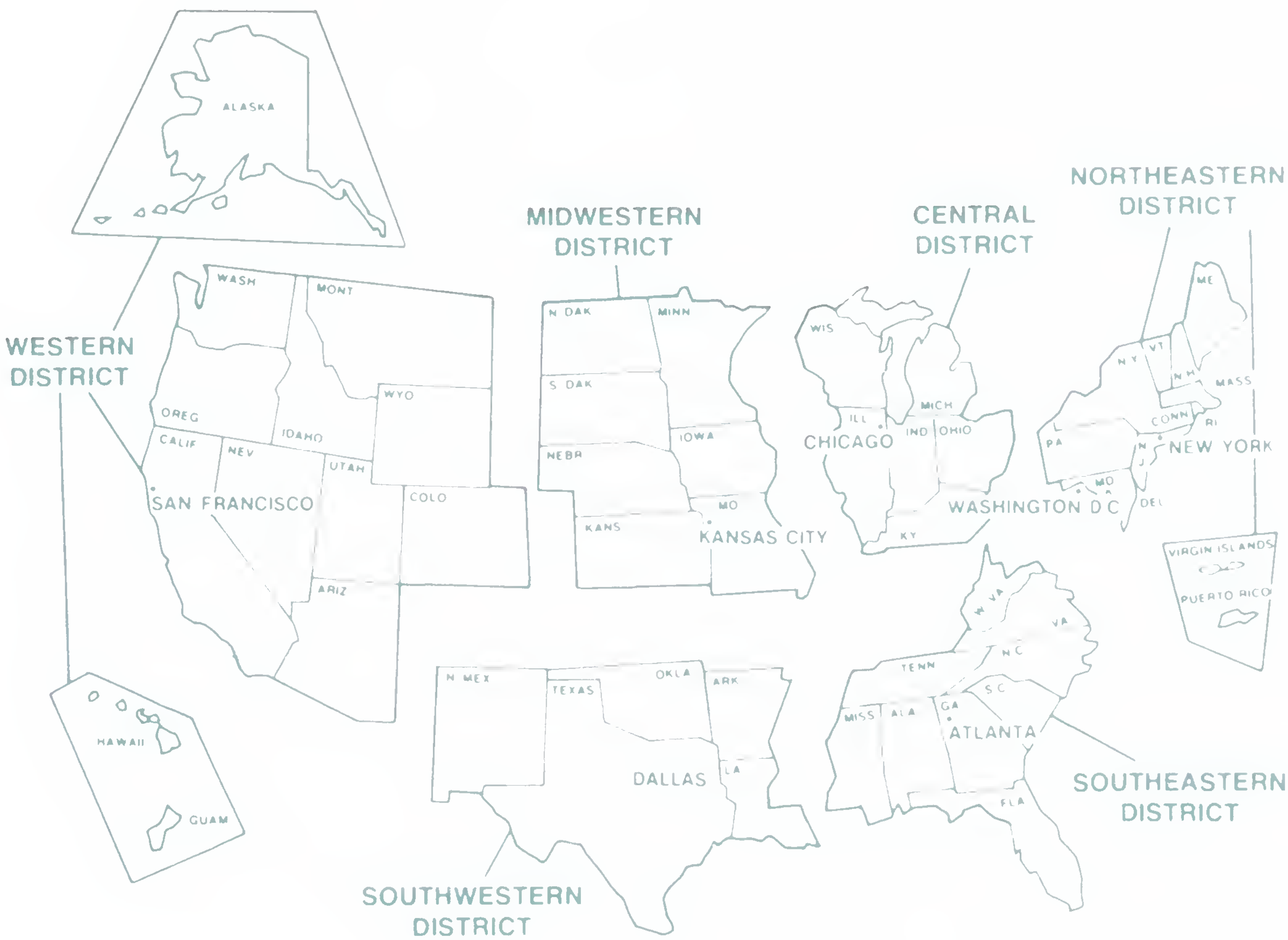

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